An aerial night view of a busy port. The scene is illuminated by warm lights from the port infrastructure, contrasting with the cool blue tones of the night sky and water. In the foreground and middle ground, there are large stacks of colorful shipping containers (blue, red, green) and several large gantry cranes with blue and orange components. A large cargo ship is docked at a pier on the right side. The overall atmosphere is one of industrial activity and global trade.

Analysis of the Jamaica Budget 2023/2024

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the letters is a yellow chevron shape pointing to the right.

EY

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Executive summary



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“ Preserving, Increasing and Sharing the Gains of Economic Recovery ”

On 7 March 2023, the Hon. Nigel Clarke DPhil, MP., Minister of Finance and the Public Service (“the Minister”), presented his statement on the Jamaica Budget for Fiscal Year (FY) 2023/2024 (“the Budget”). Within these remarks, special mention was made of the Government’s plans for preserving, increasing and sharing the gains of Jamaica’s economic recovery after Covid. In his presentation, the Minister outlined how impressive the country’s recovery performance has been, while making specific mention of the fact that Jamaica is to one of the few countries to boast having higher economic output, lower unemployment and lower debt than pre-Covid levels. In his presentation, the Minister remarked that for the first time, Jamaica’s expenditure budget will exceed one trillion Jamaican dollars.

Some of the main highlights from the budget presentation included an update on the reform of the public sector compensation system; the swearing in of Jamaica’s first Fiscal Commissioner; establishing a Natural Disaster Fund; developing the film industry through incentives and increasing investments in Jamaica through amendments to the Income Tax Relief (Large Scale Projects and Pioneer industries) Act. The Minister also advised on the ongoing plans of modernising the Customs Act and regulations.

What has always been debated within the tax realm, is the high level of taxation being imposed on taxpayers in Jamaica and the need to improve focus on compliance and collection. In his presentation, the Minister spoke of the planned upgrades to the tax offices in Montego Bay and Mandeville. The Minister also advised that land was purchased to build a tax office in Brown’s Town and that the BNS Building on King Street was also acquired to relocate the King Street Branch. Plans were also unveiled about the building of a 10-storey tax office in Cross Roads, St. Andrew. These modernisation efforts are envisioned to facilitate greater compliance and collection by improving the service capabilities of the tax authorities. The minister also spoke to the breaking of ground for the Christiana tax office.

In the vein of sharing the gains, the Minister announced that there will be no new taxes for the coming financial year. Important to note on this point is that this will be the sixth consecutive year of no new taxes being imposed on the country and the eighth consecutive year, if viewed on a net basis.

Budget overview 2023/2024

BUDGETED CENTRAL GOVERNMENT EXPENDITURE FOR 2023/2024

Expenditure Item	JM\$
Non Debt Recurrent Expenditure	657.2b
Capital Expenditure	75.4b
Debt Service	280.6b
Below the Line expenditure	8.5b
Total	1,021.7b

Key budget presentation highlights:

- ▶ Swearing in of Jamaica's first Fiscal Commissioner, Mr. Calvin McDonald. The Fiscal Commission will be the guardian and interpreter of Jamaica's fiscal rules and is required to monitor the adherence to Jamaica's fiscal rules and to provide independent assessments of budgetary outcomes, in addition to independent fiscal analysis. The Independent Fiscal Commission will provide an informed second opinion on fiscal developments and is expected to play a constructive role in informing the public and, in so doing, incentivizing adherence to Jamaica's fiscal rules.
- ▶ Establishment of a National Disaster Fund (NDF). The NDF will be held and administered by the Bank of Jamaica. The purpose of the NDF is to provide resources to Jamaica in the event of any natural disasters. The Fund also includes a contingent facility with the InterAmerican Development Bank, the Caribbean Catastrophe Reinsurance Facility and the Catastrophe Bond.
- ▶ An increase in the minimum wage of the country will take effect later this year. This will be announced by the Minister of Labour and Social Security.
- ▶ Plans to continue the transition of the public sector compensation system to a simplified, fair and equitable model.
- ▶ In the context of expanding the gains, the Government stressed its plans on improving the productivity of the economy and expanding it at the same time. The Minister reiterated the Government's commitment to modernize the Customs Act and improving the Venture Capital and Private Equity ecosystem.

Budget overview 2023/2024 (cont'd)

Key budget presentation highlights (cont'd)

- ▶ The Minister advised that in partnership with the Ministry of Industry, Investment and Commerce, plans are underway for the development and financing of the film industry in Jamaica. Plans are also underway to establish the Jamaica Screen Fund. This fund will include an initial contribution of JM\$1b over two years (i.e., JM\$500m in 2023/24) and will be used to provide financing for the development and production of film and television shows in Jamaica.
- ▶ The Minister advised that the tabling of a Bill for the amendment of the Income Tax Relief (Large Scale Projects and Pioneer Industries) Act is expected in April 2023. When enacted, this Bill will be used to operationalize the regime and attract billions in investments into the country.
- ▶ The budget presentation also included additional incentives being implemented to increase the usage of Jamaica's first digital currency, JAMDEX. Previous customer incentives included JM\$2,500 in JAM-DEX being paid to the first 100,000 customers who opened JAM-DEX wallets. This incentive is being extended to include an additional 60,000 customers who sign up for low KYC account at any commercial bank. Effective 1 April 2023, consumers with JAM-DEX wallets, existing and new, will receive 2% cash back on total purchases for goods and services in JAM-DEX, up to a maximum spend of JM\$5,000. The loyalty funds earned will be applied to each person's wallet at the end of each month, beginning April 2023. As it relates to merchants, the Minister announced that the first 10,000 merchants on-boarded as of 1 April 2023, will receive JM\$25,000 of JAM-DEX upon registration and onboarding.



3 Tax measures 2023/2024

In the Budget presentation, there were not many updates to the current tax regime in Jamaica. The majority of the revenue measures subscribed to the Minister's theme of sharing the gains of the recovery and would thus lead to marginally reduced tax revenues for the country. This effect however, was considered to be aligned with the country's plans to reduce its carbon foot print and to help with improvement in other industries. To that end, we have outlined below the new revenue measures, as well as provided a comparative Caribbean context.

► GCT on car dealer dollar margin only

In his presentation, the Minister alluded to the 43% increase in motor vehicle licencing in Jamaica in recent years. The Minister suggested that a strong auto sales industry provides opportunity for positive economic spin off effects in the wider industry. Such spin off areas include increased economic activity for mechanics, auto body repair technicians and electricians among others.

Another industry he believes was latent, is the second hand motor vehicle (MV) resale by dealers. The Minister posited that the reason for this was the unattractive General Consumption Tax (GCT) regime for MV dealers which currently exists. At present, dealers who are GCT registered taxpayers are required to charge GCT at a rate of 15% on the gross proceeds derived from the sale of second hand vehicles. On the other hand, sales of second hand vehicles by individuals or dealers who are not GCT registered, do not incur GCT. Instead, there is a flat rate of JM\$12,000 to JM\$18,000 cost affixed to the transaction.

► GCT on car dealer dollar margin only (cont'd)

This has led to a slow take up of repurchasing by GCT registered dealers which has made the market inefficient.

The solution proposed by the Minister is to implement a margin scheme system for second hand car resales. Under this proposed system, the registered taxpayer dealer is only required to charge GCT at the standard rate on the net of the selling and purchase price of the vehicles. The Minister advised that the introduction of this measure is similar to what prevails in other jurisdictions with Value Added Tax such as Canada, the UK and Barbados.

Barbados

As indicated by the Minister, where a VAT (Value Added Tax) registered dealer in Barbados purchases second hand vehicles that do not attract input VAT, the dealer is only required to charge VAT on its resale net margin.

Trinidad and Tobago

Presently, there is no such margin scheme system existing in Trinidad and Tobago.

St Lucia

Presently, there is no such margin scheme system existing in St Lucia.

Tax measures (cont'd)

► Tax credit on solar panels

In his budget presentation, the Minister reminded the House of Representatives of the National Energy Plans Policy which had a goal of renewables in electricity generation of 30% by 2030. As at 2021, the percentage share of renewables in energy stood at 13%. In keeping with the goal of 30%, the Minister advised that an income tax credit equivalent to 30% of the purchase cost of a residential solar photovoltaic system, up to a maximum JM\$4m. The Minister advised, that with the implementation of this measure, he expects a revenue loss which cannot be quantified at this time. However, the losses in revenue should be offset by the potential positive socio-economic effects of reducing carbon dioxide emissions, diversifying local energy and reducing the country's demand for crude oil. While the implementation tax credit for residential solar panels is a strong step in the right direction, it must be noted that more needs to be done to also encourage companies in assisting the Government with meeting the 30% target such as what currently exists in Barbados and Trinidad and Tobago.

St. Lucia

Presently, there are no income tax incentives relating to solar panels currently existing in St. Lucia. Previously, a tax deduction of up to EC\$6.5k (which expired in 2007) was given for expenses incurred by individuals for the purchase and installation of a new solar water heating system.

Trinidad and Tobago

In Trinidad and Tobago (T&T), where an individual purchases solar water heating equipment for household use, that individual is entitled to a tax credit of 25% of the cost of the solar water heating equipment up to a maximum of TT\$10k (US\$1,475).

► Tax credit on solar panels (cont'd)

Trinidad and Tobago (cont'd)

Further, where a person engaged in a trade, business profession or vocation incurs expenditure on the acquisition of:

- Plant, machinery, parts and materials for use in the manufacture of solar water heaters
- Solar photovoltaic systems and supporting equipment or
- Solar water heaters

that person is entitled to a wear and tear allowance of 150% of the expenditure incurred.

It should also be noted that the following items are zero-rated for the purposes of VAT in T&T:

- Solar water heaters
- Photovoltaic cells (whether or not assembled in modules or made up into panels).

Barbados

Barbados has a plethora of tax measures aimed at incentivizing investment in renewable energy.

Under their tax regime, individuals are entitled to a tax deduction equal to 150% of the actual expenditure, not exceeding BB\$10k (US\$5k) for each year for five years in respect of the conducting of energy audits; and 50% of the cost of retrofitting premises or installing systems to produce electricity from sources other than fossil fuels.

Tax measures (cont'd)

► Tax credit on solar panels (cont'd)

Barbados (cont'd)

Registered businesses are entitled to a similar deduction of 150% of the expenditure not exceeding BB\$25k (US\$12.5k) for each year for five years in respect of the conducting of energy audits; and 150% of the cost of retrofitting premises or installing systems to produce electricity from sources other than fossil fuels.

Companies are also entitled to an annual allowance in respect of expenses incurred on an energy audit, retrofitting of a building, or the installation of a system to provide electricity from sources other than fossil fuels. That allowance can be claimed annually at 20% of the expense over a period of five years.

Dividends earned by shareholders of companies solely engaged in the installation or supply of renewable energy electricity systems or energy efficient products, are exempt from withholding tax for a period of 10 years.

A person carrying on an eligible business is allowed to deduct against assessable income with effect from income year 2012, 150% of the amount expended in respect of product development and the conduct of research related directly to (a) the generation and sale of electricity from a renewable source; or (b) the installation and servicing of renewable energy electricity systems or energy efficient products produced in Barbados.

Interest earned by financial intermediaries, which include banks, credit unions and finance companies, for financing the development, manufacturing and installation of renewable energy and energy efficient products, is exempt from tax for a period of 10 years.

► Tax credit on solar panels (cont'd)

Barbados (cont'd)

Eligible businesses can deduct up to 150% of the amount of interest paid on a loan in respect of (a) the construction of a new facility to enable the generation, supply and sale of electricity from a renewable source, (b) the construction of a new facility for the installation or supply of renewable energy systems and efficient products and (c) the upgrading of an existing property to enable the generation, supply and sale of electricity from a renewable source.

A developer, manufacturer or installer of renewable energy systems and energy efficient products is granted an income tax holiday for a period of 10 years.

Building materials and supplies for the construction of a facility dedicated to the generation and sale of electricity from a renewable source are duty free and VAT free. There is also zero rating of VAT on all renewable energy and energy efficient systems and products produced in Barbados.

Tax measures (cont'd)

► Elimination of GCT on importation of live horses, small ruminants and pigs

In the budget presentation, the Minister discussed the elimination of GCT on the importation of live horses, small ruminants (goats, sheep) and pigs.

The Minister advised that for the live horses, the measure was being implemented due to the declining fortunes of the racehorse industry and its need to be revitalised due to the decreasing birth rate and barren state of the horses. The Minister advised that with this change, the country will see better quality horses being brought in, which will assist the industry and help to spur growth in other sectors of the economy.

As it relates to the small ruminants and pigs, the Minister advised that the measure was being put in place to improve local food security and to provide a source of income and employment for individuals in rural areas. The importation measure will be implemented with a five-year expiration and will be monitored so that the stock are being imported only for replenishing the breeding stock.

St. Lucia

In St. Lucia, the VAT legislation provides that the supply of live animals, other than domesticated animals generally held as pets, is zero rated.

Trinidad and Tobago

At present, there is a VAT rate of zero on the supply of animals producing food for human consumption as well as draught animals.

Barbados

Barbados currently charges VAT at its standard rate of 17.5% on the importation of live animals into the country.



4 Macro-economic indicators



GDP Growth Rate

3.0% to 5.0%

For the quarter ended December 2022, Jamaica's economy is estimated to have grown in the range of 3.0% to 5.0%, reflecting an increase compared to the previous projection of 2.0% to 3.0%. The estimated growth is due to the continued recovery in economic activity from the negative impacts of COVID-19 in 2020. Growth was recorded for all industries except for Construction. BOJ projects real GDP to grow by 1.0% to 3.0% for FY2023/24.



Inflation Rate

9.4%

Inflation at the end of December 2022 was 9.4%, a reduction relative to the 10.3% recorded for November 2022. According to BOJ, this was primarily due to lower oil prices, base effects (occurs when changes in the CPI in the base month have a significant impact on the year over year/annual rate of measured inflation), and stable exchange rate. Inflation remains above the BOJ's 4% to 6% target range. Inflation is projected to average between 5.5% and 6.5% over the next eight quarters (March 2023 to December 2024).



Foreign Exchange Rate

JM\$154.10

The exchange rate of the Jamaican versus the US dollar as at the end of February 2023 averaged JM\$154.10 to US\$1.00. The rate as at the 31 December 2022 was JM\$152.98, reflecting an appreciation of 0.84% relative to the 31 December 2021.



Unemployment Rate

6.5%

According to BOJ, as of October 2022, the unemployment rate was 6.5%, reflecting a 0.6% reduction relative to the rate as of October 2021 and a 0.5% increase compared to April 2022 (6.0%). This reduction reflects an increase of 2.9% in the number of persons employed, as well as growth of 2.3% in the labour force.



BOJ Policy Rates

7.0%

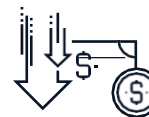
The BOJ increased the signal rate to 7.0% and announced a conditional pause in the policy rate adjustments. However, the BOJ has maintained the measures to ensure stability in the foreign exchange market and to contain Jamaica dollar liquidity expansion.



Net International Reserves

US\$3.98b

The BOJ reported Net International Reserves (NIR) of US\$3.98b as of December 2022 compared to US\$4b as of December 2021, representing a decrease of approximately 0.5%.



Debt to GDP

74.2%

The Minister indicated in his budget speech that Jamaica's debt is projected to be 74.2% of GDP for FY2023/24.

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count on us.



Our 850+ people in the Caribbean pursue the highest levels of integrity, quality and professionalism to provide clients with a broad array of assurance, consulting, law (where licensed), strategy, tax and transactions services. We operate under a single global strategy, leverage a single communications platform and adhere to a single code of practice. EY Caribbean is the largest and only fully integrated professional services firm in the region, aligning ourselves to be responsive to clients as a single point of contact, regardless of location.

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- ▶ External audit services
- ▶ Financial accounting advisory services

Consulting

- ▶ Business consulting
- ▶ Technology consulting
- ▶ People advisory services

Law

- ▶ Tax disputes resolution advisory
- ▶ Corporate and/or partnership law advisory services
- ▶ Business immigration related services

Strategy and Transactions

- ▶ Capital transformation services
- ▶ Corporate finance strategy
- ▶ Transaction diligence services

Tax

- ▶ Business tax services
- ▶ Indirect tax services
- ▶ International tax services
- ▶ Transaction tax services
- ▶ Accounting compliance reporting
- ▶ Entity compliance and governance services

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Tax services

Business tax services

- ▶ Business tax compliance and advisory
- ▶ Tax planning
- ▶ Tax controversy/disputes
- ▶ Tax accounting

Indirect tax services

- ▶ VAT compliance and advisory
- ▶ Property tax
- ▶ Insurance premium tax
- ▶ Hotel accommodation tax
- ▶ Stamp duty
- ▶ Financial services tax
- ▶ Credits and incentives

People advisory services

- ▶ Expatriate tax compliance and advisory
- ▶ Global employment tax services
- ▶ Global business immigration services
- ▶ Work permits
- ▶ Personal tax services

International tax services

- ▶ Cross-border corporate income tax advisory
- ▶ Double tax treaty analysis
- ▶ Tax-effective supply chain management
- ▶ Withholding tax

Transaction tax services

- ▶ Evaluation of significant tax exposures
- ▶ International tax
- ▶ Tax structuring
- ▶ Identification of post-transactional tax reduction options

Entity Compliance and Governance services (as permitted)

- ▶ Preparing documents regarding changes to the Company Secretary, Directors, Registered Address.
- ▶ Preparation of Written Resolution template for use/amendment by the Board of Directors for the approval of any change of the Company Secretary, Directors, Registered Address.

- ▶ Attending Board and Committee Meetings, General Meetings (including Annual General and Extraordinary General Meetings) and drafting Minutes of Meetings.
- ▶ Drafting Notices and Chairman's Agenda for Annual General Meetings.
- ▶ Submitting Audited Financial Statements to Companies Office of Jamaica.
- ▶ Preparing the Declaration for the Beneficial Owner(s) of shares held by Corporations.
- ▶ Completion and filing of forms for allotment of new shares.
- ▶ Completion and filing of forms for transfer of shares from one shareholder to another.
- ▶ Conducting Health Checks.
- ▶ Proving Jamaican Immigration Services such as Work Permits (new/renewal), Extension of Stay Applications and Entry Visa.
- ▶ Independent Scrutineer at Annual General Meetings



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