

## Analysis of the Jamaica Budget 2022/2023

On 8 March 2022, the Hon. Nigel Clarke DPhil, MP., Minister of Finance and the Public Service, presented his Statement on the Jamaica Budget for Fiscal Year (FY) 2022/2023.

For the FY 2022/23, the Budget proposes total net expenditure of J\$912B. This amount encompasses J\$604.5B of non-debt expenditure and J\$307.5B of debt service expenditures. The proposed budget is an increase of J\$81.2B over the planned expenditure for FY 2021/22. The increase in the budget was due to, among other things, a 5.2% increase in non-debt expenditure which the government intends will help spur more economic growth.



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The total net expenditure of J\$912 billion is comprised of:

Expenditure Type	\$
Non-Debt Recurrent Expenditure	J\$539.4 billion
Capital Expenditure	J\$ 65.1 billion
Debt Service Expenditure	J\$307.5 billion

The Budget was read against the background of a promising rebound in economic growth over the prior year as the country staged a notable recovery from the impact of the COVID-19 pandemic with forecasted growth ranging between 7 - 9% in FY 21/22. The Minister emphasized that the country's ability to absorb the economic shock of the prior year was aided by the Government's sound fiscal policy decisions of the recent past, which created sufficient fiscal, monetary and resilience buffers to allow the country to quickly overcome the significant economic challenges posed by pandemic related business interruption and border curtailment.

In outlining the measures for implementation over the next year, the Minister underscored that there would be no new taxes in this year's Budget. He explained that this is the 7th consecutive year where there are no increases in net taxes and the 5th consecutive year where there are no new taxes at all. In fact, the primary tax measures mentioned for the 2022/2023 fiscal year were reliefs.

Furthermore, he stressed that the Government would not undo the Gas Tax but that given the increase in oil and gas prices exacerbated by the Russia-Ukraine invasion and the consequential supply shocks to the global supply market, there would be a special provision of J\$2B to provide targeted support to those who are most adversely affected, and who have the least ability to absorb the impact of high gas and energy prices.

Although no further information was provided on the implementation specifics, the Minister indicated that he could foresee the provision being used to relieve taxi operators who have fixed fares, with some allocation made towards providing transportation support to children on PATH, as well as some other groups.

The Minister also announced that the import duty on Electric Motor Vehicles would be reduced from 30% to 10%, for an initial 5-year period and would be complemented by exempting the annual registration fees on battery electric vehicles (Refer to table below for the duties and taxes that are currently applicable). These measures are estimated to cost the Government J\$18M based upon current volumes. As such, the Minister indicated that his Government would limit the number of electric vehicles being imported that benefit from this duty reduction to 1,000 per annum. This measure is to be implemented in the first quarter of FY 2022/2023 with further details to be provided on its implementation.

	Electric MVs	Hybrid MVs
Import Customs Duty	Proposed rate of 10% (current rate is 30%)	20%
General Consumption Tax	0%	15%
Customs Administrative Fees	Applicable	Applicable
Environmental Levy	.5%	.5%



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In addition to the above, the Minister outlined the following fiscal measures/policies of note:

- ▶ Amendment of the Income Tax Relief (Large-Scale Projects and Pioneer Industries) Act to encourage further significant high economic value investments with tax credits rather than blanket tax holidays.
- ▶ Advancement of a Bill to replace, repeal and modernize the Customs Act. This measure is intended to bring the Customs regime up to international standards and to allow for a more efficient and productive economy.
- ▶ Revision of the Income Tax Act with special emphasis on updating amendments, simplification, streamlining of the tax code and the incorporation of certain international tax policy obligations.
- ▶ Amalgamation of four statutory payroll deductions into one to eliminate distortions and further increase ease of doing business.
- ▶ Design of one uniform "Sanctions Code" to facilitate the ease of access by the taxpayers and the administrators.
- ▶ Revisiting, at an unspecified time in the future, the partial reduction in the assets tax for specified regulated entities previously announced in 2020 but never implemented.
- ▶ Jamaica signed the multilateral instrument for the Common Reporting Standards in 2020. The local legislation will require financial institutions to submit information to Tax Administration Jamaica in May 2022 and for the exchange of information with relevant jurisdictions to begin in September 2022.

From the onset of his presentation the Minister noted that the military conflict in Ukraine and the economic sanctions on Russia would inevitably impact Jamaica's economic recovery in the form of higher oil, gas and commodity prices, the exacerbation of already high inflation, and investor aversion to risk assets. Nonetheless, he remained optimistic that the country is well positioned to resume growth through the implementation of deliberate and strategic fiscal policies.

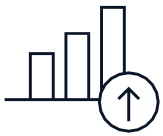
The Minister's presentation did not include any additional details on the proposed fiscal measures and policies. As a result, rather than speculate, we shall await further and better particulars before issuing an updated release complete with our analysis. In the interim, for your ease of reference, we are pleased to provide a snap-shot of the country's key macro-economic indicators on the next page.





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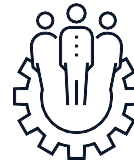
## Macroeconomic Indicators



### GDP Growth Rate

5.0% to 7.0%

For the quarter ended December 2021, Jamaica's economy is estimated to have grown in the range of 5.0% to 7.0%, which is an acceleration relative to the September 2021 quarter's growth of 5.8%. 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 Mining & Quarrying. BOJ projects real GDP to grow at an average rate of 3.1% over the March 2022 to December 2023 quarters.



### Unemployment Rate

7.1%

According to BOJ, as of October 2021, the unemployment rate was 7.1%, reflecting a 3.7% reduction relative to the rate as of October 2020. This reduction reflects an increase of 6.6% in the number of persons employed as well as growth of 2.4% in the labour force. The labour force participation rate is estimated at 63.4%. BOJ projects that labour market conditions will improve over the next eight quarters (March 2022 to December 2023), averaging 7.6%, an improvement relative to the past year.



### Inflation Rate

9.7%

Jamaica recorded its highest inflation rate in January 2022 of 9.7%. The Minister indicated that this is highest in approximately 8 years.



### BOJ Policy Rates

2.5%

During the December 2021 quarter, the BOJ increased the signal rate on three separate occasions from 0.5% to 2.5%. The implementation of this measure by the BOJ is to continue to ensure that further movements in the exchange rate do not threaten the inflation target of 4% to 6%.



### Foreign Exchange Rate

J\$155.60

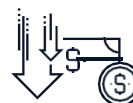
The exchange rate of the Jamaican versus the US dollar as at the end of February 2022 was J\$155.60 to US\$1.00. The rate as at the 31 December 2021 was J\$155.09, reflecting a depreciation of 8.7% relative to the 31 December 2020.



### Net International Reserves

US\$4.00b

The BOJ reported Net International Reserves (NIR) of US\$4.00b as of December 2021 compared to US\$3.13b as of December 2020 an increase of approximately 28.0%.



### Debt to GDP

96%

The Minister indicated in his budget speech that Jamaica's debt is projected to be 96% of GDP in March 2022.

## 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

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