

11 March 2019

## Jamaica Tax Alert

# Growth with Equity

Highlights of the measures  
announced in Jamaica on  
March 7, 2019

The Government of Jamaica (GOJ) tabled its Estimates of Expenditure in the House of Representatives on March 7, 2019. In his first Budget Presentation, the Minister of Finance and the Public Service, Dr. the Honourable Nigel Clarke, MP., projected gross expenditure of J\$835.9 billion for the 2019/20 fiscal year comprising:

- Non-Debt Expenditure of J\$528.8 billion;
- Appropriations in Aid of J\$32.7 billion; and
- Public Debt Service of J\$274.4.

The Minister of Finance stated that GDP growth was 2% for the first half of the fiscal year and estimated to be 1.9% for the Government's 2018/2019 fiscal year. He also stated that Inflation was stable and low, the Central Bank's policy rate was a record low of 1.5% in February 2019 and unemployment was at its lowest in Jamaica's history.

In November 2016, the GOJ cancelled the International Monetary Fund (IMF) Extended Fund Facility Arrangement and signed a new three-year US\$1.64 billion Precautionary Standby Arrangement with the IMF which is expected to end on November 10, 2019. The Minister stated that since the start of this Precautionary Standby Arrangement, Jamaica has had no need to draw down or borrow funds from the IMF.



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

- The establishment of a Fiscal Council to be the guardian and interpreter of the fiscal rules which already exist, to help Jamaica to maintain a path of fiscal credibility since Jamaica is projected to have a debt to GDP ratio of 96% by March 31, 2019 and intends to meet a 60% Debt to GDP ratio by 2026.
- Modernization of the Bank of Jamaica to make price stability the primary goal of monetary policy; increase transparency around monetary policy decisions; provide for greater accountability to the people of Jamaica through parliament and improved governance.
- Pursuing Public Financial Management policy for National Disaster Risk.
- Public Procurement Reform to reserve a portion of the annual procurement budget for Jamaican micro, small and medium sized enterprise suppliers.
- Domestic Margins of Preference, which allow for preferential treatment of Jamaican suppliers in accessing GOJ procurement.
- Private Sector Pension Reform to broaden social protection by increasing access to pensions and broadening the pool of assets that pension funds can invest in.
- The Continuation of Public Sector Reform and transformation which will continue with the implementation of shared services in HR management and the implementation of shared corporate services with respect to audit and public relations.
- Improving the physical infrastructure of Tax Administration Jamaica (TAJ) offices.
- Improving access to Financing through Factoring of Receivables.
- Improving access to capital.
- Implementing an independent rating for issuers of fixed-income securities.
- Investing in a foreign exchange trading infrastructure that will allow for greater transparency in pricing.
- Introducing regulations to govern the nomination, selection and appointment of persons on the board of public bodies.
- Completing the Micro Credit Act to ensure that micro credit services operate within an environment of transparency and accountability and to protect customers from predatory pricing.
- Introducing Union Legislation to establish supervisory oversight of the credit union sector by the Bank of Jamaica.
- Modernizing the Customs Act.
- Increased spending in the area of National Security.
- Facilitating major infrastructural work across the island.
- Strengthening the Rural Water initiative and improve agricultural growth and development.
- Increasing access to finance for the micro, small and medium sized businesses, including a sidecar fund facility of \$200 million for equity financing of 'investment ready' start-ups.
- Upgrading school infrastructure.
- Increasing access to tertiary education by reforming the Students' Loan Bureau (SLB) and by applying payments made for new loans to the most outstanding balance first. Effective immediately, eligible borrowers in good standing with the SLB will be entitled to a reduction in their interest rates of 2 percentage points. Additionally, all borrowers employed fulltime to registered charities which are in good standing, will have 10% of their loan balance forgiven for each full year of full-time employment with a registered charity effective April 1, 2019.
- Implementing a Global Skills Project to train and enhance the skills of Jamaicans to participate in higher valued global services sector.
- Funding for Research and Development to be carried out by faculty and students in Jamaican tertiary institutions.
- Adopting a more strategic approach to social protection and poverty reduction, improving benefits under the PATH program and giving more funds to the



poverty reduction programmes including the Citizen Security and Justice Programme.

- Facilitating the building of 2 new centres for women who are victims of domestic abuse and violence.
- Completing the Codes of Practices for the Effectiveness of the National Disabilities Act, 2014.
- Increasing Government pension payouts to retired Government employees; and
- Using the Jamaica Stock Exchange in the privatization of certain Government entities to broaden the ownership base of the Jamaican economy and with the upcoming Wigton Windfarm privatization, the Government will reserve 20% of the issue for public sector employees.

## Executive summary of the announced tax measures

- Abolition of the Assets Tax payable by Non-Financial institutions.
- Abolition of the Minimum Business Tax.
- Increase in the Annual General Consumption Tax (“GCT”) Threshold from \$3 million to \$10 million.
- Reform of the ad valorem Stamp Duty payable on any instrument including the granting of security as collateral for loans; with a flat rate stamp duty of \$5,000 per document.
- Reduction in Transfer Tax on property transfer from 5% to 2.0%.
- Increase in the Transfer Tax threshold on the estate of deceased persons from \$100,000 to \$10 million.

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

## Tax Measures

### Abolition of the Assets Tax payable by Non-Financial Institutions

The Minister announced that the Assets Tax that is imposed on non-financial institutions would be abolished commencing with the 2019 year of assessment.

## Commentary

The Assets Tax was restructured in 2012 and at that time its due date was moved to March 15 of each year. In 2014, the Assets Tax for non-financial institutions was increased as follows:

Asset Value	Annual Assets Tax
At least J\$50m	J\$200,000
At least J\$5m but less than J\$50m	J\$150,000
At least J\$500,000 but less than J\$5m	J\$100,000
At least J\$50,000 but less than J\$500,000	J\$25,000
Less than J\$50,000	J\$5,000

The Minister indicated that he is removing the Assets Tax because it is distortionary. He also indicated that the Assets Tax was removed to reduce the costs of micro and small businesses; better align taxation with profitability thereby encouraging greater risk-taking business activity and encouraging small business formation.

The Government’s abolition of the Assets Tax that was payable by non-financial institutions is effective for year of assessment 2019. Therefore, Assets Taxes due on March 15, 2019 based on the above table are still due and payable for year of assessment 2018 but there would be no Assets Tax payable for non-financial institutions commencing with the 2019 year of assessment.

The potential revenue loss from this tax change is \$1.840 billion.

### Abolition of the Minimum Business Tax (MBT)

The Minister announced the abolishment of the Minimum Business Tax effective April 1, 2019.

## Commentary

The 2012/13 Budget introduced a minimum business tax of \$60,000 and it was imposed on all registered companies and self-employed persons effective January 1, 2013. This MBT did not apply in the first year of an entity’s operation and did not apply to charities and persons falling under Section 12 of the Income Tax Act. However, companies operating under tax incentive legislation, self-employed professionals such as



lawyers, doctors and consultants were required to pay the MBT.

It was introduced in 2013 in an attempt to bring within the tax net, companies and self-employed persons that were not paying income tax. It accomplished the desired effect and led to the deregistration of numerous dormant companies due to the added costs involved.

The Minister indicated that like the Assets tax, he is removing the MBT to reduce the costs of micro and small businesses; better align taxation with profitability thereby encouraging greater risk-taking business activity, and encourage small business formation.

The expected revenue loss from this tax change is \$1.093 billion.

## Increase in GCT Threshold

During the 2019/2020 Budget the Minister announced an increase in the GCT threshold to \$10 million from \$3 million effective April 1, 2019.

## Commentary

In 2009, the annual GCT threshold was increased to \$3 million from \$1 million so the 2019 increase to \$10 million is once again at least 3 times the amount of the previous limit.

In 2009, the Bank of Jamaica's average US\$ exchange rate was \$88.28 for US\$1 and for 2018 it was \$129.72. Thus, the US\$ equivalent of \$3 million was US\$33,982.78 in 2009 and US\$23,126.73 in 2019. This means in US\$ equivalent terms the GCT threshold in 2018 was approximately US\$10,000 less than it was in 2009 when the GCT threshold was increased, simply because of the devaluation of the Jamaican dollar. The new GCT threshold of \$10 million in 2019 is the equivalent of approximately US\$77,000 so the increase is approximately double what the GCT threshold was in US\$ terms in 2009. This is a significant increase in the GCT threshold and will result in more than 3,500 micro and small businesses no longer needing to register and file GCT returns. This reduces the compliance burden for these taxpayers. However, for taxpayers who are normally in receipt of GCT refunds, they would be better off registering if the GCT they pay exceeds the GCT they collect in their businesses. Nevertheless, based on the Government estimates more taxpayers benefit than lose from this initiative.

This measure is expected to cost the Government \$731 million.

## Reform of the Stamp Duty Act to remove ad valorem Stamp Duty Rates

The Minister announced that effective April 1, 2019 the Government will abolish and replace with a flat fee of \$5,000 per document, the ad valorem stamp duties applicable to the processes of:

- Registering land
- Issuing a Bond
- Assignments
- Registering of Debentures
- Registering a Mortgage – other than primary land
- Refinancing a mortgage whether the amount is the value or higher
- Discharge of a mortgage
- Other stamp duties involved in the granting and perfection of other forms of securities
- Stamp duties payable on an increase in share capital; rental/lease agreements and other transactions.

## Commentary

The Stamp Duty Act is complex and has many different rates determined based on the type of document that is stamped. The proposed rate change is expected to simplify and reduce the stamp duties charged on documents that are used in real estate transactions and for business loans. The Minister indicated that this measure is expected to stimulate greater competition and activity in, and access to credit markets; increase property development and real estate activities; and increase economic growth and job creation. However, it currently takes many months and sometimes years to transfer real property in Jamaica due to the administration of the tax, so the expectations of the Minister for this reduction to stimulate economic activity also depends on whether documents can be stamped quickly.

The potential revenue loss from this measure is \$6.650 billion.



## Reduction in Transfer Tax on the transfer of real property and financial instruments from 5% to 2%

The Minister announced the reduction of the Transfer Tax payable on the transfer of real property and financial instruments effective April 1, 2019.

### Commentary

It appears that this reduction in the Transfer Tax applies only to real property transfers and not companies that own real property but the legislation is needed to clarify this issue. The Transfer Tax has been in existence for many years and it was reduced to 6% from 7.5% effective May 1, 2008, by the then Minister of Finance, the Hon. Audley Shaw. It was then reduced further to 4% effective January 1, 2010 by Minister Audley Shaw. However, effective April 1, 2013, the Transfer Tax was increased to 5% by the succeeding Minister of Finance, Dr. Peter Phillips. It is hoped that similar to the proposed changes to the Stamp Duty, this measure will further stimulate property development and real estate activities, and drive economic growth and job creation. However, the long process of transferring property in Jamaica is also due to the valuation of the property, the various documents that need to be stamped and verified and also the process of obtaining a mortgage. Therefore, the process also needs to be reformed to ensure documents can be transferred faster through the system to speed up the time it takes to get property transferred from one person to another in Jamaica.

The potential revenue loss from this is J\$3.431 billion.

## Increase in the Transfer Tax (i.e. Estate Tax) threshold applicable to the estate of deceased persons

The Minister proposed an increase in the transfer tax threshold to \$10 million from the current \$100,000 for the estate of deceased persons.

### Commentary

The current Transfer Tax applicable to estates of deceased persons is 1.5% of the value of the estate, including real property and shares, in excess of the threshold less deductions and expenses incurred. On April 27, 2011, former Minister of Finance, the Hon. Audley Shaw reduced the transfer tax on estates to 1.5% from 4% and reduced the stamp duties to flat rates that reached a maximum of \$25,000. Minister Clarke announced that this increase in the Transfer Tax threshold was done so that beneficiaries of estates will be able to utilize the equity in inherited property to leverage economic opportunities.

The potential revenue loss is \$0.287 billion. The effective date for implementation is April 1, 2019.

### Conclusion

During its pre-election campaign, the Government committed to a reform of the Jamaican tax system and promised to lower taxes and create a business-friendly tax system. Therefore, these measures are trying to create a business-friendly system and are aimed at fulfilling an election promise. The tax reductions totalled \$14.032 billion and are being funded by the reduction of the primary surplus from 7% to 6.5% and the additional revenues generated by the over performance of tax revenues. With a major reduction in the Debt to GDP ratio from 147 to 96; a low interest rate environment; relatively low unemployment and low inflation, the economy should be growing faster than the predicted 1.9% in 2019. It is therefore hoped that these measures will increase this growth by stimulating the business activities in Jamaica, particularly the micro, small and medium enterprises. However, in order for these tax reductions to have the desired effect of stimulating the economy and returning even more tax revenue to the Government, depends on how businesses spend the cash that these measures will free up. If the businesses in Jamaica use the cash from these tax reductions in the local economy, expand their operations, hire more people and spend locally, these measures should help the economy to grow at a faster pace.

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