

**HMFPS BUDGET PRESENTATION
2022/23**

“RECOVERY, REFORM and RESTORATION”

REVENUE MEASURES

TUESDAY, MARCH 8, 2022

13.0 Revenue Measures

Madam Speaker, I want to turn my attention to revenue measures for the upcoming fiscal year.

I am pleased to begin my remarks by informing the people of Jamaica that there will be NO NEW TAXES.

As I said last year, “we are prioritizing economic recovery, which we want to achieve in the quickest possible time. Increasing taxes at this time would run counter to that objective.”

Madam Speaker, this is the seventh consecutive fiscal year where, on a net basis, we have not raised taxes.

Madam Speaker, this is the FIFTH consecutive fiscal year where there will be absolutely NO NEW TAXES.

13.1 Fuel Prices and Fuel Tax

Yesterday, oil prices hit the highest level in more than a decade due to developments related to the war in Ukraine.

Though we know this will be temporary, this appreciation in the price of oil has a negative impact on Jamaica and on Jamaican consumers in the meantime.

There are several persons, including those in the Opposition, who have advocated for a removal of part or all of the Special Consumption Tax of \$7 per liter that was placed on petrol by the previous administration in March 2015.

13.1.1 Establishing the Facts

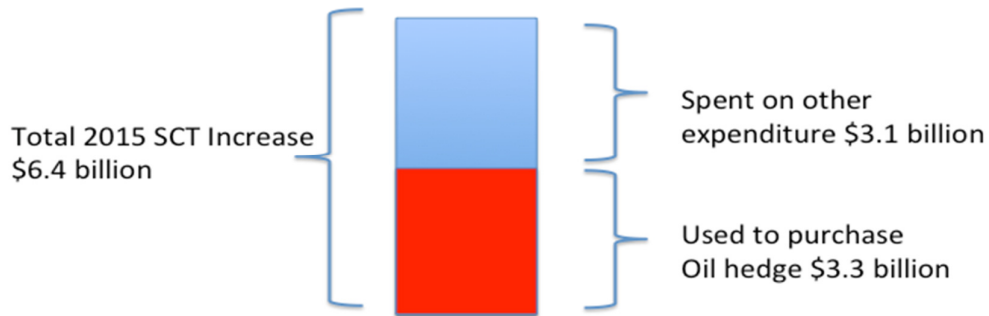
I ask Jamaicans to first consider the facts:

- By way of background, in his budget presentation in March 15, the then Minister of Finance, the Hon. Dr. Peter Phillips proposed a hedge on the price of oil and then announced the imposition of a \$7 per litre tax on petrol which yielded \$6.4 billion in order to pay for the hedge and to compensate for the loss in revenues of lower price of oil
- The Revenue Measures for the financial year 2015/16 contained in Ministry Paper 34/15 tabled in the House on March 12, 2015, the day of the speech, included the following sentences: “.....*House members are being asked to note that the systematic reduction in oil prices has had an adverse impact on GOJ revenues. The loss has been significant and the GOJ has noted the need to insure against future contingencies...*”
- In his budget presentation on the same day, the then Minister of Finance, the Hon. Dr. Peter Phillips proposed a hedge on the price of oil and then

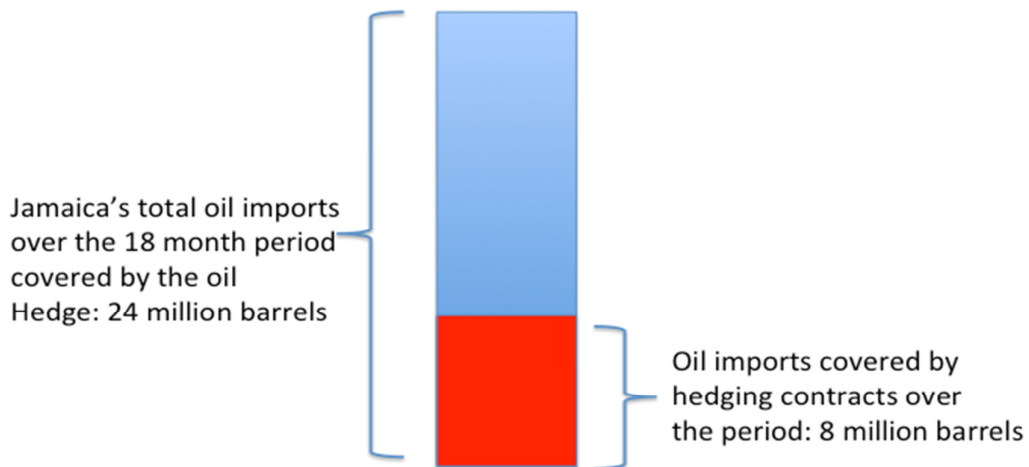
announced the imposition of a \$7 per litre tax on petrol to pay for the hedge, and to compensate for the revenues.

- The new tax was forecasted to yield approximately \$6.4 billion
- During the 2015/16 fiscal year - \$3.3 billion was paid to overseas bankers for a series of hedging contracts covering 8 million barrels of oil over an 18 month period. Jamaica's consumption of oil over that 18 month period was projected at 24 million barrels of oil.
- Though they only spent \$3.3 billion out of \$6.4 billion, no hedging contracts were purchased after June 2015.
- There was no separate fund. These proceeds went to the Consolidated Fund
- The contracts all expired worthless.

USE OF 2015 INCREASE IN SCT ON FUEL BY SIMPSON MILLER ADMINISTRATION



THE 2015 HEDGE COVERED A SMALL MINORITY OF JAMAICA'S OIL IMPORTS



Member Phillips has often expressed understanding of the pressure that I face in my capacity of Minister of Finance.

Well in the same vein, I can appreciate the pressures he was under. And, knowing what I know, and from the publicly available evidence I will offer my opinion that then Minister Phillips needed to raise revenues – but given the volatility of gas taxes in Jamaica, came up with the “brilliant idea” of a hedge in order to ease acceptance of the overall revenue measure.

However, the reality is that, the Ministry of Finance in explaining the tax in the Revenue Measures contained in Ministry Paper 34/15 wrote that they lost “significant” revenues from the lower price of oil.

This explains why the funds ended up in the Consolidated Fund and not in some other fund and it explains why only \$3.3 billion out of \$6.4 billion was spent on the hedge and why there was no hedge purchase after June 2015.

The Government of the day needed additional tax revenues. And believe me, I understand that.

13.1.2 We have given back multiples of the \$6.4 billion raised in 2015

Since assuming power in 2016, this Government has pursued a path of giving back hundreds of billions of dollars to the Jamaican people, and has not imposed any new net taxes.

Rather than undo the so called Hedge Tax, which I have established was not used solely for this purpose, we instead decided to raise the threshold for income tax, resulting in what we have today where 350,000 Jamaicans pay no income tax. ‘Is we do that’. That is a give back of over \$30 billion per annum.

Since April 2017, Jamaicans have been relieved of an aggregate of \$150 billion in personal income tax. We raised indirect taxation of the same amount to pay for this and raised social assistance by 50%.

Rather than undo the Gas Tax, we instead decided to reduce GCT in 2020 as an economic stimulus, a give back of approximately \$14 billion per annum. In the two years since Jamaicans have benefited by \$28 billion from that give back.

When the other side raise their voices, become heated, and attempt to claim a moral high ground on this issue, I want you to ask them a simple question: what have you ever given back to the Jamaican people? Where is your give back? It simply doesn’t exist.

Mr. Speaker, I believe you will recall that in my presentation last year, I brought with me a glass house to accompany a warning about those in glass houses not throwing stones. I won’t bring out the house again, unless I am forced to, but my warning remains the same. As Anthony Red Rose says in his song, Tempa, “Nevah say me nevah didda a warn you . . . “

13.1.3 What we will do

Madam Speaker, it is also a fact that the price of unleaded petroleum has risen by almost 50% in the last 12 months. The Government recognizes that many Jamaicans are suffering from this significant increase in price.

As such, we will establish a special provision, in the amount of \$2 billion 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.

I can immediately see this being used in part, to provide relief to taxi operators who have fixed fares, and some towards providing transportation support to children on PATH. But there are other groups and we will dialogue with stakeholders on the best methodology for allocation of this support and announce the details shortly.

13.2 Electric Motor Vehicles

We also need to be strategic and think long term. Having such a dependence on oil for our energy needs is a risk to Jamaica's economic security. Look at what is happening today. There is no developed country that is as exposed to the price of oil as Jamaica.

We must rid ourselves of this unhealthy dependence on oil. The Prime Minister will speak more fulsomely on this.

A huge source of our oil import bill is for petroleum used by cars. However technology exists today that allows us to reduce that dependence and reduce the operating cost of consumers.

Electric vehicles cost 1/3 of what petroleum powered vehicles cost to fuel. If it costs \$10,000 to fill a car with petrol, it would cost \$3,000 if the car was powered by electricity. This is so as using petrol as a fuel wastes so much energy in form of exhaust.

Having more electric vehicles would allow Jamaica to have more renewable energy as there is synergy between renewable energy's intermittency problem and electric cars' need for storage.

Eventually, in a decade, motor vehicles in Jamaica need to be 100% electrically powered, with energy from the sunshine. This would rid us from the kind of oil price vulnerability that we have today and consumers would enjoy much more stable prices to operate their cars.

We cannot get there overnight. But we have to start. For this reason we intend to incentivize the purchase of electric vehicles by:

- i. reducing the import duty on Electric Motor Vehicles from 30% to 10%, for an initial 5-year period; and

- ii. exempting the annual registration fees on battery electric vehicles.

The Government earned \$27 million in duties from the importation of electric vehicles last year. This measure therefore has a cost of \$18 million on current volumes.

However, because duties on motor vehicles are such a huge part of Government revenues we will need to limit the number of electric vehicles being imported that benefit from this duty reduction to 1,000 per annum.

This measure is also to be implemented in the first quarter of FY 2022/2023 and further details will be provided on its implementation.

14.0 Concluding Remarks

Madam Speaker, my remarks today have focused on the three themes of recovery, reform, and restoration.

Over the past two years COVID cost over \$76 billion including \$40 billion of direct social and economic support and we are all happy that our economy is now recovering.

In terms of recovery, I am proud to report to the people of Jamaica, despite the devastating impact of the COVID-19 pandemic, the Jamaican economy is recovering, and we are recovering stronger.

In the past year:

- we have achieved and projected quarterly economic growth of between 5.8% and 14%, which is the highest economic growth achieved in over 50 years, albeit after a record contraction
- every sector of the Jamaican economy is recovering, except for mining which we expect to recover this year
- the number of jobs have increased by over 100,000, resulting in the lowest unemployment rate, 7.1%, in Jamaica's recorded history; and
- despite having to spend more to address the pandemic, our debt to GDP ratio is back on track and this year we could achieve the lowest debt to GDP ratio in over 22 years

This quick and strong recovery did not occur by accident, Madam Speaker.

In fact, over the past year, many countries around the world experienced economic decline including some in our region.

And in Jamaican history, we have had several years in which GDP growth has collapsed, followed not by recovery, but by additional years of decline.

In the COVID crisis we were not distracted by short-term, politically-expedient demands, and instead remained both focused and disciplined on acting responsibly, thoughtfully, carefully, and strategically. We pursued good policy Madam Speaker.

In terms of reform, this administration remains committed to strengthening and deepening the initiatives to resume a path of long-term, sustainable economic growth.

We have therefore committed ourselves to pursue reform with ambition. We will:

- deepen financial inclusion with the creation of low risk, less stringent KYC accounts where you will pay no banking fees
- deepen financial including with central bank digital currency - Jam Dex – where you can pay and transfer anytime, anywhere with no bank fees
- implement a new, modern, more efficient, and more productive customs regime
- revamp the taxation regime to make it more equitable, fair, reasonable, and transparent;
- strengthen our governance, audit, and oversight mechanisms to increase independence, reduce political interference, and engender greater trust among the public
- improve the strengths and capabilities of our public sector through new initiatives such as the Marcus Garvey Scholarship Programme
- put in place comprehensive pension fund reform to better secure pensions and also allow workers to carry their pensions with them if they leave their jobs; and
- implement the comprehensive public sector compensation reform to make our public compensation system easier, fairer, fair, transparent, easily understood, sustainable, affordable, and that better recognizes and rewards performance

We recognize and acknowledge that these initiatives come at a significant cost and reduces the room for error.

We believe, however, that investing in our people and improving the quality and capacity of the public sector will allow us to achieve the objectives of greater efficiency, economic growth, and equity.

In terms of restoration, Madam Speaker, we remain committed to ensuring that we put Jamaica back on the path of sustainable economic growth, from which we have meandered, so that more Jamaicans are able to achieve the Jamaican dream.

Here are some of the actions we have taken to accelerate this path to restoration:

- We launched the first catastrophe bond issues by any small island country in the world to improve our resilience;
- We are investing \$13 billion in loans and credit support for MSME's. Never before has so much loan and credit support been available to MSME's
- We are investing over \$10 billion in private equity and venture capital to help SME's, early stage companies, entrepreneurs, even as we encourage innovation, and stimulate investment. Never has so much private equity financing been available for small and medium sized businesses and early- stage companies
- We are attracting large investors under our Integrated Resorts Initiative who will invest at least US\$1 billion into our tourism product
- We plan to come to market with over \$200 billion of infrastructure projects of the next three years
- We are advancing on unemployment insurance for Jamaicans
- For the seventh consecutive year, we are not imposing any new net taxes on the people of Jamaica because we believe you are best positioned to decide how to spend your money
- We are establishing \$2 billion provision to protect the most vulnerable Jamaicans, and those least able to absorb the impact of very high oil prices
- As we speak we are rolling out \$200 million of support for food through Food For the Poor, Red Cross, United Way and other charitable organisations as we increase support for the vulnerable
- We will roll out \$500 million more of support for food starting April and will involve MPs and Councilors in even more support for the vulnerable
- In addition, up to 100,000 Jamaicans who establish low risk KYC accounts will benefit from a deposit of \$2500 from the GOJ
- We are implementing a new digital currency, Jam Dex, which will bring the underbanked into the formal system and make doing business easier and cheaper

- And, up to 100,000 Jamaicans who establish Jam Dex digital currency accounts will benefit from a deposit of \$2500 from the GOJ

Finally Madam Speaker, we will restore our National Heroes to a place of pride on our banknotes. We will co-locate former rivals in an effort at restoring unity in our society.

Madam Speaker, I am grateful to my colleague Minister and predecessor as Minister of Finance, Hon. Audley Shaw, who reminded me recently of how he closed his Budget presentation a few years ago.

With his permission, I feel compelled to follow him in quoting the passage from the Holy Book in Isaiah Chapter 58, Verse 12:

“The Lord will always guide you; He will satisfy you in a sun-scorched land and strengthen your frame. You will be like a well-watered garden, like a spring whose waters never fail. Your people will rebuild the ancient ruins; you will restore the age-old foundations; you will be called Repairer of the Breach, Restorer of the Streets of Dwelling.”

Madam Speaker, the Lord will continue guide us. And I believe sincerely that our people will rebuild the ancient runs and restore the age-old foundations. We can become repairers of the breach and we will become restorers of **our** dwelling, Jamaica, land we love.

Thank you, and God bless Jamaica.