



# Tax Expenditure Statement 2022

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## **Preface**

This is the twelfth annual tax expenditure statement to be produced by the Ministry of Finance and the Public Service, Jamaica. The legal framework for the Tax Expenditure Statement is provided for in Section 48F of the *Financial Administration and Audit Act (FAA Act)*, which provides for the annual tabling of a Tax Expenditure Statement in Parliament.

Parliament is advised that the Statement contains the requisite detail in relation to waivers, exemptions and other revenue foregone in the calendar year preceding the previous financial year.

It should be noted that with regard to discretionary waivers, the reference is specific to waivers of tax liability that have been granted in the exercise of discretionary power conferred on the Minister with responsibility for Finance. These waivers are provided on the basis of a determination of just and equitable. Waivers are subject to the established policy, which provides for an annual limit of \$120 million, applied as \$10 million monthly. The waiver cap forms the basis of the current policy in an attempt to curtail tax expenditures in this area.

Tax expenditure is essentially any potential revenue loss occurring as a result of specific provisions that lead to a reduction of tax payable by a specific type of taxpayer or activity. The report presents Jamaica's tax expenditure estimates for the major tax types using data for the period **2018-2020**. Readers who would like further information on the estimates of tax expenditures (including the methodology used to compute them) should

access, the “*Estimates of Tax Expenditures for Jamaica, 2007-2009*” reference document on the Ministry of Finance and the Public Service’s website, [www.mof.gov.jm](http://www.mof.gov.jm) .

## **Disclaimer**

The *Ministry of Finance & the Public Service* wishes to advise that the tax expenditures described herein are presented for five major ‘tax types’ only. These ‘tax types’ combined, account for the majority of Government revenue. Measurement of tax expenditures for the other ‘tax types’ is outside the scope of this publication as attempting to estimate expenditures for those would produce estimates that are outside an acceptable margin of error. It is also important to bear in mind that tax expenditures are not actual outlays as they are estimated based on assumptions as to how taxpayers would behave under certain conditions. In other words, tax expenditures are *not* amounts that governments actually “spend out of pocket” but rather potential tax revenue foregone. The estimated amounts were mainly computed using returns data (of varied quality) submitted by taxpayers.

## **Introduction**

The tax system is often used as an alternative mechanism to achieve various public policy objectives through *inter alia* the application of *special tax rates* for various sectors, *exemptions*, *deductions* and *credits*, which affect the respective tax burden faced by various taxpayers. Such applications are typically classified as “**tax expenditures**” because they achieve certain policy objectives at the expense of potentially foregone tax revenue for governments. A tax expenditure budget, which essentially provides an overall gathering of the costs of all the above-mentioned provisions, is a useful tax policy planning tool as it helps to identify how much the various exemptions, deductions, etc. are potentially costing the Government annually. This tax expenditure statement includes a compilation of tax expenditure estimates which may assist local policy makers to make informed decisions. The tax expenditure statement is also useful in the sense that it gives a rough indication of the various amounts (other than direct spending) that Government expended on various programmes/initiatives through the tax code.

It is important to mention from the outset that what specifically constitutes tax expenditure is very subjective and as such, the magnitude of tax expenditures vary widely across countries. Nonetheless, the basic approach that is normally used to identify and estimate tax expenditure is to essentially start by defining the ‘normal’ structure of the tax in question before considering any measure/provision in the tax system which differs from the normal structure as a possible tax expenditure. A problem however, is that what constitutes the normal structure of any tax system is often

subject to considerable interpretation. Consequently, what actually represents tax expenditure can be quite controversial.

An alternative approach to identifying tax expenditures is to include any measure which results in a reduction of the tax payable by a specific type of taxpayer or activity. However, by utilizing this approach, it is possible to incorrectly include measures that are not traditionally considered to be tax expenditures. A popular example of items that could be incorrectly counted as tax expenditures are exemptions resulting from various international treaties and agreements.

The tax expenditure estimates presented in this report were produced by the *Taxation Policy Division* of the Ministry of Finance & the Public Service with kind assistance from *inter alia Tax Administration Jamaica, eGov Jamaica Ltd.*, the *Statistical Institute of Jamaica*, the *Jamaica Customs Agency* and the *Ministry of Science, Energy & Technology*.

## **Caveats**

Caution must be taken when interpreting the various tax expenditure estimates. This is partly due to reasons outlined below:

It is highly misleading to sum different tax expenditures. The problem with adding tax expenditures is that the value of two tax expenditures in isolation might be different than two tax expenditures combined. For example, an import duty exemption reduces the base for the General Consumption Tax (GCT) and would result in a lower cost for GCT expenditures. If one simply summed the cost of the import duty exemption and the GCT exemption, the result would be less than the true total potential revenue impact that would arise from removing both incentives simultaneously (since the removal of the import duty exemption would widen the GCT base, which would potentially result in additional GCT revenue). In a similar manner, other interactions might result in a combination of incentives that if simultaneously removed, would result in lower revenue than their individual estimates.

Consequently, **no totals are provided for the tax expenditures by tax type** in any of the tables below, since adding across individual tax expenditures can result in an over-estimation of the potential revenue impact of various combinations of tax expenditures. For example, the tax expenditure estimate for the reduced GCT base for tourism cannot be meaningfully added to the tax expenditure estimate for the reduced GCT rate for tourism, as the reduced base estimate uses the reduced rate as the “normal” rate for estimating the value of the expenditure.



Warnings accompanying tax expenditure estimates are important. The *Department of Finance, Canada* and the *Australian Treasury* for example, specifically state that caution must be taken in interpreting the estimates of tax expenditures due partly to the following:

- The estimates are intended to roughly indicate the potential revenue gain that might be realized by removing the respective preferential tax treatments. They are developed while assuming that the underlying tax base will not be affected by removal of the respective measures. However, this is an assumption that is unlikely to materialise in practice as the behaviour of beneficiaries of tax expenditures, overall economic activity and other Government policies could change along with the specific tax provision. **Consequently, it does not necessarily follow that there will be a commensurate increase in tax revenue from the abolition of a particular tax expenditure.** This is based on the possible behavioural responses by the recipients of tax expenditures and overlaps in the coverage of different tax expenditures (Source: [http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2016/Tax%20Expenditures%20Statement%202015/Downloads/PDF/2015\\_TES.ashx](http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2016/Tax%20Expenditures%20Statement%202015/Downloads/PDF/2015_TES.ashx) [accessed February 6, 2017]).
- The cost of each tax measure is determined separately i.e. assuming that all other tax provisions remain unchanged. However, many of the tax expenditures do interact with each other such that the impact of several tax provisions at once generally cannot be calculated by adding the estimates for each provision. One must note that the

standard “*revenue-forgone approach*” was typically utilized in conjunction with some micro-simulation models to measure the tax expenditures in this report. The revenue-forgone method essentially involves estimating the potential tax revenues that might have been generated in the absence of a tax expenditure while assuming that the taxpayers’ behaviour remained unaltered.

- The tax expenditure estimates presented in this research were mainly computed using the latest tax returns data available. Revisions to the underlying data as well as refinements to the methodology can therefore result in substantial changes to the value of a given tax expenditure in future publications of tax expenditure estimates.

The above issues apply to the Jamaican context and as a result, the reader should bear these caveats in mind. Finally, it is crucial to define the term “**Reported Net Tax**” (or “Net Tax Payable”) prior to formal presentation of the tax expenditure estimates. Reported Net Tax is essentially, the total amount of tax that the taxpayers are required to pay over to the Government (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Government in the case where there is a credit (i.e. when the value is negative). The reported net tax is therefore a critical value that is included in the tables so that the reader can assess the magnitude of each tax expenditure as a proportion of the total net tax payable. It is important to note that the “reported net tax” is based on returns data and as such, this figure is not necessarily equal to the actual net revenue collection (which accounts for tax paid for the relevant current period and arrears (including penalties, interests and surcharges)) for a particular tax type.

## ***Rationale for Presenting Tax Expenditure Estimates on a Calendar Year Basis***

The tax expenditure estimates for Jamaica were computed for the period 2018-2020 on the basis of *calendar* (rather than *fiscal*) years. This is **in keeping with the requirement as outlined** in Section 48F of the *Financial Administration and Audit Act* which requires that upon presentation of the Estimates of Revenue and Expenditure, a Tax Expenditure Statement with details of the revenues forgone in the calendar year preceding the previous financial year be tabled.

In addition to the dictates of the *FAA Act*, accounting on a calendar year basis is used based on how Jamaican taxpayers file their returns and how the data are captured. For example, in the case of income tax, all companies, self-employed persons, partnerships, organizations and employed persons who earn additional income are required annually by law to *inter alia* file their income tax returns for the previous calendar year by March 15<sup>th</sup> of the current year.

Another basis for using the calendar year is that tax expenditure estimates are not *cash* expenditures but rather *accrual-based* estimates of potential foregone revenues. This is essentially in line with the international best practice of computing and presenting tax expenditure estimates. In fact, because tax expenditure estimates are accrual-based (rather than cash-based), it is illogical to report them on a fiscal year basis, as the fiscal year is essentially a cash construct. Also, when reporting on an accrual basis, it is

only rational to present the numbers on a calendar year basis, as this was the time period in which the amounts were accrued.

It is re-emphasized here that unlike the tax expenditure estimates, which are measured on an accrual<sup>1</sup> basis, the estimates in the regular (fiscal) budget are prepared on a cash basis.

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<sup>1</sup> The “accrual basis” is a method of accounting in which items are entered as incurred (or earned) regardless of when the actual payments were made (or earned) while the “cash basis” method of accounting involves reporting the expenses (or revenues) only when cash is actually paid out (or received).

## **Estimates of Jamaica’s Tax Expenditures**

The remainder of the document is structured as follows: First, tax expenditure estimates for **Income Tax** i.e. Corporate Income Tax (CIT) and Personal Income Tax (PIT), are presented. Next, estimates of **Education Tax** (ET) expenditures followed by **General Consumption Tax** (GCT) expenditures and **Special Consumption Tax** (SCT) expenditures are illustrated before concluding with estimates of Jamaica’s **Trade Tax** expenditures. The tables overall present the tax expenditures for the period **2018-2020**.

All the estimates of tax expenditures are expressed in millions of Jamaica dollars (J\$M). A zero value is not intended to always imply that the expenditure was zero because in some cases it is used to represent a miniscule amount or a proportion of the value. A “dash” (i.e. ---) represents a situation where it was either not possible to reasonably estimate the respective tax expenditure based on the available information or where the relevant expenditure did not occur in a particular year. In sum, the tax expenditures quantified<sup>2</sup> and presented here are mainly those for which reliable data were available.

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<sup>2</sup> Note that a major system change in the year 2016 affected the computations of Jamaica’s annual tax expenditures. Specifically, due to TAJ’s on-going roll-out of its Revenue Administration Information System (RAiS), such process not only resulted in taxpayers finding it easier to *inter alia* file and pay taxes online, but it also had unwanted implications for the computations of selected tax expenditures. Specifically, for the more recent years, some of the tax returns were actually revised (with additional or replacement data fields) thus making a meaningful comparison and merger with the previous years’ returns difficult. As a consequence, caution should be taken hereinafter especially when comparing tax expenditures produced for the year 2015 and beyond with their counterparts estimated for earlier years.

### ***Income Tax Expenditures***

The tax expenditures for the CIT and PIT are broken into five categories: *Exemptions, Deductions & Allowances, Reduced Rates, Credits and Waivers & Reimbursements*. This categorization is based on the reporting method for each according to the income tax forms. It should be noted that this categorization may differ from one based on the structure of the *Income Tax Act*; for instance some income tax exemptions are required to be reported as income tax at a zero per cent rate. In particular, expenditures presented for the CIT are compiled separately for Companies and Other Bodies.

The “***Exemptions***” category includes measures which allow for exempting certain categories of income from inclusion in taxable income. This category does not include outright exclusions from the definition of income. Many of the expenditures under this category could not be estimated, as the actual tax return contains no specific line item for the inclusion of the exemption. Taxpayers may be including these exemptions under other line items or not including them in reported income. Some line items contain reporting of more than one exemption. In such cases, the joint cost of the expenditures is presented.

On the other hand, the “***Deductions and Allowances***” category includes any deduction from gross income over and above those typically allowable in relation to the costs incurred in the generation of that income, including any special capital cost allowance provisions. Many of the expenditures under this category could not be estimated, as the actual tax return contains no specific line item for the inclusion of the deduction or allowance. Taxpayers may be including these deductions and allowances under other line items or

not including them in reported income. Some line items report more than one deduction. Again, in such cases, the joint cost of the expenditures is presented.

The “***Reduced Rates***” category includes any provisions that tax any particular source of income at a rate below the standard rate, or that taxes income for any specific category of taxpayer at a tax rate below the standard rate. This category includes some income tax exemptions that are required to be reported as income taxed at a “nil rate”. The actual tax return does not provide separate line items for the reporting of different income by tax rate and consequently, no estimates are currently available for these expenditures.

The “***Credits***” category includes any measures which allow for a reduction in gross tax owing, apart from credits for taxes already paid, including tax credits for foreign tax paid as provided for under an international tax agreement. There are no specific line items for all credits making it difficult to ascertain the exact value of some tax credits; the value of the expenditure could be already accounted for under the line item for “other credits”.

Lastly, the “***Waivers and Reimbursements***” category includes any reductions in tax payable allowed for post-filing through a direct waiver from the Ministry of Finance. Please note that the income tax expenditures are reported separately for the CIT and PIT.

## Corporate Income Tax Expenditures

**Table 1: Corporate Income Tax Expenditures<sup>‡</sup>, 2018-2020**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
<b><i>Deductions and Allowances</i></b>							
ITA <sup>†</sup> 13(1) (o)	“Covenanted Donations” <sup>a</sup>	1,330.19	2.77	563.43	1.10	7.06	0.02
ITA 13(1) (q)	Donations to Approved Charities	1,354.72	2.82	700.58	1.36	144.51	0.32
<b><i>Tax Credits</i></b>							
Various	“Income Tax Relief in Respect of Incentive Income”	3,052.86	6.36	2,697.42	5.25	1,499.79	3.28
Various	“Other Credits” <sup>b</sup>	8,648.13	18.01	423.18	0.82	486.49	1.07
<b><i>Waivers and Reimbursements</i></b>							
Various	Waivers (excluding waivers on penalties and interest) <sup>c</sup>	11.08	0.02	3.41	0.01	0.01	0.00
<b>Reported Net Tax</b>		<b>48,006.52</b>		<b>51,363.35</b>		<b>45,663.02</b>	

Source: Computed by the Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of particular tax expenditure would not necessarily yield the full tax revenues shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. <sup>†</sup>*Income Tax Act*. Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the



Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data.

**Notes:**

<sup>a</sup> Covenanted Donations in our context, essentially arise when there is a formal binding agreement for an institution to contribute an amount over time.

<sup>b</sup> The tax expenditures arise because selected taxpayers are entitled to tax credits, which provided them with some relief from the Contractors' Levy and the then Customs User Fee. It should be noted that since April 1, 2013, the Customs Administration Fee supplanted the Customs User Fee. Additionally, the Government also grants tax relief in the form of an incentive tax credit to investors (individuals or companies), financial intermediaries and developers undertaking capital investments in either land or buildings (whether residential or commercial) in Special Development Areas under the *Urban Renewal (Tax Relief) Act*, for example. Since January 1, 2014, the Government also introduced the Employment Tax Credit mechanism which enables employers to reduce their effective income tax rate on trading profits to as low as 17.5 per cent. There was also the introduction of the *Income Tax Relief (Large-Scale Projects and Pioneer Industries) Act* under which additional income tax incentive is now offered.

<sup>c</sup> The estimates for waivers tax expenditure were directly provided by Tax Administration Jamaica. These estimates relate specifically to waivers granted in the years 2018-2020. It should be noted though that effective 2013, as part of the then IMF agreement, there was a rationalization/reform of the waiver system aimed at reducing tax expenditures with a dramatic curtailment in the granting of discretionary Ministerial waivers. The reader should also note that the waiver tax expenditures are presented for the tax year for which the waivers specifically relate to. In fact, the data were extracted by "*ledger years*" since it was prudent to identify only the waivers that were used to offset arrears for a particular calendar year. In other words, the ledger year is the period for which a waiver was granted for (rather than granted in). The rationale for doing this is because (as mentioned earlier) tax expenditures are reported on an accrual basis and as such; one should match accrual waivers against such expenditures. It is important to note that a comprehensive amnesty was announced on April 10, 2008 for all tax types as part of Government's strategy to reduce tax arrears and improve revenue collections. Another amnesty was subsequently announced by the Honourable Minister of Finance on April 23, 2009 geared towards taxpayers who had previously avoided declaring taxes. Finally, it is also worthy to mention that waivers specifically on penalties and interests are **not** usually considered as tax expenditures and as a result, were excluded. The waiver expenditure values reported in both tables for the CIT expenditures are not disaggregated by CIT category.

**Corporate Income Tax Expenditures (Other Bodies)**

**Table 2: Corporate Income Tax (Other Bodies) Expenditures<sup>‡</sup>, 2018-2020**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
<b><i>Deductions and Allowances</i></b>							
ITA <sup>†</sup> 13(1) (o)	“Covenanted Donations” <sup>a</sup>	0.00	0.00	0.00	0.00	0.00	0.00
ITA 13(1) (q)	Donations to Approved Charities	16.98	2.54	29.47	3.79	36.46	1.68
<b><i>Tax Credits</i></b>							
Various	“Income Tax Relief in Respect of Incentive Income”	0.00	0.00	0.00	0.00	0.00	0.00
Various	“Other Credits” <sup>b</sup>	0.00	0.00	0.00	0.00	0.00	0.00
<b><i>Waivers and Reimbursements</i></b>							
Various	Waivers (excluding waivers on penalties and interest) <sup>c</sup>	11.08	1.66	3.41	0.44	0.01	0.00
<b>Reported Net Tax</b>		<b>668.54</b>		<b>778.05</b>		<b>2,175.43</b>	

Source: Computed by the Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of particular tax expenditure would not necessarily yield the full tax revenues shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. <sup>†</sup>*Income Tax Act*. Estimates are for

the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data.

**Notes:**

<sup>a</sup> Covenanted Donations in this context, essentially arise when there is a formal binding agreement for an institution to contribute an amount over time.

<sup>b</sup> The tax expenditures arise because selected taxpayers are entitled to tax credits, which provided them with some relief from the Contractors’ Levy and the then Customs User Fee. It should be noted that since April 1, 2013, the Customs Administration Fee supplanted the Customs User Fee. Additionally, the Government also grants tax relief in the form of an incentive tax credit to investors (individuals or companies), financial intermediaries and developers undertaking capital investments in either land or buildings (whether residential or commercial) in Special Development Areas under the *Urban Renewal (Tax Relief) Act*, for example. Since January 1, 2014, the Government also introduced the Employment Tax Credit (ETC) mechanism which will enable employers to reduce their effective income tax rate on trading profits to as low as 17.5 per cent. There was also the introduction of the *Income Tax Relief (Large-Scale Projects and Pioneer Industries) Act* under which additional income tax incentive is now offered.

<sup>c</sup> Estimates for waivers tax expenditure were directly provided by Tax Administration Jamaica. These estimates relate specifically to waivers granted in the years 2018-2020. It should be noted though that effective 2013 as part of the IMF agreement there has been a rationalization/reform of the waiver system aimed at reducing tax expenditures with a dramatic curtailment in the granting of discretionary Ministerial waivers. The reader should also note that the waiver tax expenditures are presented for the tax year for which the waivers specifically relate to. In fact, the data were extracted by ledger years since it was prudent to identify only the waivers that were used to offset arrears for a particular calendar year. In other words, the ledger year is the period for which a waiver was granted for (rather than granted in). The rationale for doing this is because (as mentioned earlier) tax expenditures are reported on an accrual basis and as such, one should match accrual waivers against such expenditures. Finally, it is also worthy to mention that waivers specifically on penalties and interests are not usually considered as tax expenditures and as a result, were excluded. The waiver expenditure values reported in both tables for the CIT expenditures were not disaggregated by CIT category.

### Personal Income Tax Expenditures<sup>3</sup>

**Table 3: Personal Income Tax Expenditures<sup>‡</sup>, 2018-2020**

Tax Provision	Description	2018 <sup>a</sup>		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
<b>Exemptions</b>							
ITA 13(1) (i), (u) (j)	Pension Contributions	247.87	3.45	263.31	5.07	267.13	3.86
<b>Deductions and Allowances</b>							
ITA 12(c) (o)	Pension and Old Age Relief	673.64	9.37	737.19	14.19	704.64	10.19
ITA 12(c) (o)	Other Pension Exemptions	682.74	9.50	641.13	12.34	470.59	6.80
ITA 13(1) (o)	“Covenanted Donations”	6.68	0.09	6.52	0.13	3.71	0.05
ITA 13(1) (o)	Donations to Approved Charities	7.37	0.10	8.00	0.15	7.20	0.10

Source: Computed by the Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of particular tax expenditure would not necessarily yield the full tax revenues shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Pension Contributions include contributions to superannuation funds, retirement funds, and other funds approved by the Minister. The deduction ITA 12(c) (which includes income tax exemptions for wound, disability and war pensions and gratuities) is now disaggregated into “Pension & Old Age Relief” and “Other Pension Exemptions”.

<sup>3</sup> These estimates relate specifically to the individual income taxpayers (self-employed) rather than to the PAYE employees.

Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data.

**Table 3: Personal Income Tax Expenditures, 2018-2020 (Continued)**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
<b><i>Tax Credits</i></b>							
Various	“Income Tax Relief in Respect of Incentive Income”	_ a	_ a	_ a	_ a	_ a	_ a
Various	“Other Credits”	17.43	0.24	18.44	0.35	30.26	0.44
<b><i>Waivers and Reimbursements</i></b>							
Various	Waivers (excluding waivers on Penalties and interest)	56.63	0.79	12.52	0.24	0.23	0.00
<b>Reported Net Tax<sup>b</sup></b>		<b>7,187.99</b>		<b>5,195.45</b>		<b>6,917.55</b>	

*Source:* Computed by the Ministry of Finance & the Public Service.

Notes: †The abolishment of particular tax expenditure would not necessarily yield the full tax revenues shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Pension Contributions include contributions to superannuation funds, retirement funds, and other funds approved by the Minister. The deduction ITA 12(c) (which includes income tax exemptions for wound, disability and war pensions and gratuities) is now disaggregated into “Pension & Old Age Relief” and “Other Pension Exemptions”.

Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data.

**Note:**

<sup>a</sup> The IT01 was used to file returns of Income and Tax Payable for Self-Employed Individuals until 2013, thereafter the replacement SO4 form has been used. The SO4 form however, does not capture “Income Tax Relief in Respect of Incentive Income”.

<sup>b</sup> The Net Tax Payable is a representation of what taxpayers formally report to the Tax Administration of Jamaica and will change over time as additional returns relating to a respective calendar year, are filed.

## **Education Tax Expenditures**

Three tax expenditures were identified for the Education tax; all of which are provided for under the *Education Tax Act*. While the method for determining the value of these tax expenditures involves a simple extrapolation of data which should be reported on the tax forms, analysis of the tax return data indicated that the data collected were unlikely to be representative. Originally, an ‘F’ rating was implicitly assigned to the tax expenditures as a result of the data issues, which typically indicated that either there was insufficient data available to conduct an estimate, or that data issues were such that the margin of error was likely larger than the estimate. In this case, the data issue is that only an unknown proportion of the tax return data appears to be available, while the degree of accuracy of the estimates cannot be determined, the values provided should represent a minimum value for the costs. As in the case of the early tax expenditure statements, the estimates of expenditure for the Education Tax are usually disaggregated by category i.e. Education tax expenditures for *Individuals*, *Organizations* and *Self-Employed*. However, after a recent revision of the Education tax returns, the related tax expenditures for Individuals and Organizations are now presented jointly (as the returns for both are currently lumped and supplanted by the Employers’ Annual (SO2) return) in a single table similar to the education tax expenditures for the Self-Employed. Essentially, the SO2 is a single return which consolidates employer’s annual payroll information for the Education Tax and three payroll deductions (National Housing Trust (NHT), National Insurance Scheme (NIS) and Pay as You Earn (PAYE)). Finally, it should be noted that the Education tax expenditures for the Self-Employed are now specifically based on the Self

Employed Persons Annual Return of Income, Taxes and Contributions (SO4) return that was introduced on January 1, 2015.

**Table 4: Education Tax (*Individuals and Organizations*) Expenditures<sup>‡</sup>, 2018-2020**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
<b><i>Education Tax Act</i></b>							
7(1) (d), (e)	Exemption from the employers' portion of education tax for parish council and municipal corporations <sup>a</sup>	3,035.07	10.71	2,656.04	8.65	1,942.68	6.67
<b><i>Waivers and Reimbursements</i></b>							
Various	Waivers (excluding waivers on penalties and interest) <sup>b</sup>	1.68	0.01	0.44	0.00	0.01	0.00
<b>Reported Net Tax</b>		<b>28,346.45</b>		<b>30,714.08</b>		<b>29,113.72</b>	

Source: Computed by the Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of particular tax expenditure would not necessarily yield the full tax revenues shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Estimates are for the respective calendar years. "Reported Net Tax" or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e.



when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data.

**Notes:**

<sup>a</sup> The estimates of education tax expenditures for previous years are arguably of little utility because very few returns were then filed and posted for the Education Tax. In recent times however, this problem is no longer a major concern as the issue has been somewhat addressed. For example, employers are now able to file a single monthly payment return rather than several returns. Moreover, filing compliance should continue to improve in the future with the forthcoming full amalgamation of the payroll deductions. On a separate issue, the National Insurance Scheme for example, is essentially a social security deduction (rather than a tax) and as such, has no related tax expenditures.

<sup>b</sup> The values reported in the tables for the Education Tax expenditures were not disaggregated by category. Effective April 1, 2013, Government increased the Education tax rates. Specifically, the education tax rate for Employees/Self-employed moved to 2.25 per cent (up from 2.0 per cent) while the rate for Employers rose to 3.5 per cent (up from 3.0 per cent).

**Table 5: Education Tax (Self-Employed) Expenditures<sup>‡</sup>, 2018-2020**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
<b><i>Education Tax Act</i></b>							
7(1) (d), (e)	Exemption from the employers' portion of education tax for parish council and municipal corporations <sup>a</sup>	792.42	53.87	810.01	52.90	742.79	52.71
<b><i>Waivers and Reimbursements</i></b>							
Various	Waivers (excluding waivers on penalties and interest) <sup>b</sup>	1.68	0.11	0.44	0.03	0.01	0.00
<b>Reported Net Tax</b>		<b>1,470.96</b>		<b>1,531.35</b>		<b>1,409.18</b>	

*Source:* Computed by the Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of particular tax expenditure would not necessarily yield the full tax revenues shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Estimates are for the respective calendar years. "Reported Net Tax" or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data.

**Notes:**

<sup>a</sup> The estimates of education tax expenditures for previous years are arguably of little utility because very few returns were then filed and posted for the Education Tax. In recent times however, this problem is no longer a major concern as this issue has been somewhat addressed. For example, employers are now able to file a single monthly payment return rather than several returns. Moreover, filing

compliance should improve further in the future with the forthcoming full amalgamation of the payroll deductions. On a separate issue, the National Insurance Scheme for example, is essentially a social security deduction and as such, has no related tax expenditures.

<sup>b</sup> The values reported in the tables for the Education Tax expenditures were not disaggregated by category. The reader might recall that effective April 1, 2013, Government increased the education tax rates. Specifically, the then education tax rate for Employees/Self-employed moved to 2.25 per cent (up from 2.0 per cent) while the rate for Employers rose to 3.5 per cent (up from 3.0 per cent).

## **General Consumption Tax Expenditures**

The expenditures for the GCT are broken down based on the legislation which grants the tax expenditure. GCT expenditures are provided for under the *GCT Act*, various incentive *Acts*, defined in the charters of some organizations, or through waivers allowed under various pieces of legislation such as the *GCT Act* and the statutory powers of the Minister with responsibility for finance.

Under the *GCT Act*, tax expenditures typically fall under three major categories; special treatment outlined in the *Act*, zero-rating provided for under the First Schedule, and exemptions provided for under the Third Schedule. For the zero-rating and exemptions schedules, the expenditure estimates have been summarized by broad categories. For example, the “Basic Food” tax expenditure is the summary of over 15 separate provisions under the Third Schedule. While detailed data on the importation of the individual product categories are available from the customs records, similar data for supplies coming from domestic production are unavailable. As a result, providing any further disaggregation of the estimates would result in unacceptable increases in the margins of error.

While there are several tax incentive *Acts* providing exemption from payment of GCT, either for imports or domestic acquisitions, most of these are with respect to purchases by businesses engaged in taxable activity. Consequently, these exemptions are more in the form of cash flow assistance rather than a tax expenditure benefit for the business, as the business would be entitled to an input tax credit for any tax which they could be required to pay. Tax incentives directed at unregistered activity is the sole exception

where tax expenditure is occurring. Since January 1, 2014, the Government implemented policy changes as per *The Fiscal Incentives (Miscellaneous Provisions) Act, 2013* which endorsed changes to the structure of incentives offered to commercial importers with respect to duty relief on productive inputs. The *Fiscal Incentives (Miscellaneous Provisions) Act, 2013* is the overarching incentive legislation and supplants repealed enactments as outlined in the legislation (*Fiscal Incentives (Miscellaneous Provisions) Act 2013*, p. 3). As such, expenditures for some incentives previously reported on have from 2014 and thereafter, been excluded. There is, however, a grandfathering process for these incentives and therefore some tax expenditure will continue to accrue from these incentives at reducing levels over time.

The Royal Charter of the University of the West Indies provides for certain exemptions from GCT. Estimates of these tax expenditure reported here strictly pertain to GCT exempted on imports. On the other hand, the “Waivers” category only includes those waivers granting reductions in tax payable at time of import.

During the period, there was a broadening of the GCT base to include some previously exempted products. Additionally, the GCT base was further widened to include the Telephone Call Tax (TCT) along with all fees and taxes paid at the ports (Environmental Levy, CUF/CAF, etc.). Furthermore, the rate of GCT on electricity was re-imposed at the standard GCT rate of 16.5 per cent for Residential customers’ usage above 350 kWh effective April 1, 2015. This threshold was further reduced to 150 kWh per month effective April 2017.

**Table 6: General Consumption Tax Expenditures<sup>‡</sup>, 2018-2020**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
<b><i>GCT Act</i></b>							
Section 4	Reduced base <sup>a</sup> on Imports	0.0	0.0	0.0	0.0	0.0	0.0
Section 4	Reduced rate for Tourism	8,768.64	5.6	10,691.39	6.8	4,419.67	2.8
	Reduced Tax Base for Tourism	0.0	0.0	0.0	0.0	0.0	0.0
First Schedule	Agriculture & Fishing	310.89	0.2	323.80	0.2	320.47	0.2
First Schedule	Airline Industry	95.24	0.1	155.17	0.1	60.77	0.0
First Schedule	Designated Educational Supplies	47.53	0.0	102.19	0.1	35.15	0.0
First Schedule	Designated Health Care Supplies	1.86	0.0	9.67	0.0	22.49	0.0
First Schedule	Religious or Charitable Purposes	53.23	0.0	76.81	0.0	118.64	0.1

*Source:* Computed by the Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of particular tax expenditure would not necessarily yield the full tax revenue shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data.

**Table 6: General Consumption Tax Expenditures<sup>‡</sup>, 2018-2020 (Continued)**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
Third Schedule	Designated Inputs into Agriculture and Fishing	363.43	0.2	262.80	0.2	37.13	0.0
Third Schedule	Basic Food	6,469.91	4.1	4,230.55	2.7	6,260.45	4.0
Third Schedule	Buses	62.58	0.0	25.00	0.0	121.54	0.1
Third Schedule	Computers for Designated Bodies	0.0	0.0	0.0	0.0	0.0	0.0
Third Schedule	Designated Educational Supplies	157.99	0.1	179.09	0.1	139.59	0.1
Third Schedule	Designated Energy Conservation Equipment	191.46	0.1	257.90	0.2	211.18	0.1

*Source:* Computed by the Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of a particular tax expenditure would not necessarily yield the full tax revenue shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Estimates are for the respective calendar years. "Reported Net Tax" or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit.

**Table 6: General Consumption Tax Expenditures<sup>‡</sup>, 2018-2020 (Continued)**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
Third Schedule	Designated Health Care Supplies	3,018.57	1.9	3,377.75	2.1	3,437.89	2.2
Third Schedule	Designated Printing and Printed Materials	226.18	0.1	277.18	0.2	152.79	0.1
Third Schedule	Designated Materials for Religious or Charitable Purposes	0.0	0.0	0.0	0.0	0.0	0.0
Third Schedule	Vehicles for Specified Persons	1,777.12	1.1	1,357.03	0.9	1,035.28	0.7
Third Schedule	Construction Services	628.92	0.4	493.16	0.3	329.97	0.2

*Source:* Computed by the Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of particular tax expenditure would not necessarily yield the full tax revenue shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data.



**Table 6: General Consumption Tax Expenditures<sup>‡</sup>, 2018-2020 (Continued)**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
Third Schedule	Residential Rental	1,910.75	1.2	1,932.19	1.1	1,759.93	1.03
Third Schedule	Health Care and Veterinary Services	315.48	0.2	327.18	0.2	n/a	n/a
Third Schedule	Education Services	2,496.05	1.6	2,651.19	1.5	n/a	n/a
Third Schedule	Life & Health Insurance	_b	_b	_b	_b	_b	_b
Third Schedule	Water Supply	1,392.77	0.9	1,457.49	0.9	1,392.40	0.81
Third Schedule	Electricity Supply	3.27	0.0	5.95	0.0	1.09	0.0
Third Schedule	Financial Services	_b	_b	_b	_b	_b	_b

*Source:* Computed by the Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of particular tax expenditure would not necessarily yield the full tax revenue shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data. n/a - data for the calculation of these estimates were not available at the time of computations.

**Table 6: General Consumption Tax Expenditures<sup>‡</sup>, 2018-2020 (Continued)**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
Third Schedule	Petroleum Fuels	_b	_b	_b	_b	_b	_b
<b><i>Incentive Acts</i></b>							
Hotel Incentive	Imports for the tourist industry	1.56	0.0	0.58	0.0	4.43	0.0
Omnibus Incentive	Imports for the Manufacture industry	37.87	0.0	0.0	0.0	1.01	0.0
Mining Incentive	Imports for the Mining industry	3,540.14	2.2	3,245.07	2.1	1,815.76	1.2
Motion Picture Incentive	Imports for the motion picture industry	16.35	0.0	4.21	0.0	1.40	0.0
Public Transport Incentive	Imports for the Public transport (corp. area) program	0.39	0.0	0.92	0.0	0.42	0.0
Relig./Charit. Incentive	Imports for the Religious or Charit. industry	328.86	0.2	263.86	0.2	213.46	0.1

*Source:* Computed by Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of particular tax expenditure would not necessarily yield the full tax revenue shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Estimates are for the respective

calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data.

**Table 6: General Consumption Tax Expenditures<sup>‡</sup>, 2018-2020 (Continued)**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
<b><i>Other Acts or Charters</i></b>							
Separate Charter	Education	1.67	0.0	4.56	0.0	0.0	0.0
Separate Charter	Remission Under Own Act	4.34	0.0	4.39	0.0	0.10	0.0
<b><i>Waivers and Reimbursements</i></b>							
Waiver	Full Waiver	177.51	0.1	128.72	0.1	81.12	0.1
Waiver	Partial Waiver	6.18	0.0	0.0	0.0		
Waiver	Waiver for Hybrid Cars	-	0.0	-	-	-	-
Waiver	Waiver for Hybrid Trucks	-	0.0	-	-	-	-
Waiver	Waiver for JUTA	-	0.0	-	-	0.13	-
<b>Reported Net Tax</b>		<b>157,533.29</b>		<b>171,393.75</b>		<b>171,264.37</b>	

*Source:* Computed by the Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of particular tax expenditure would not necessarily yield the full tax revenue shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data.

**Notes:**

<sup>a</sup> This expenditure occurred because the then Customs User Fee (CUF), the Standard Compliance Fee (SCF) and the Environmental Levy previously were not part of the GCT base at the ports. Effective April 1, 2013, *inter alia* the Customs Administration Fee (CAF) and Customs Processing Fee and the Environmental Levy all became a part of the GCT base at the ports.

<sup>b</sup> Figure Not Applicable - The “GCT Financial Services and Life & Health Insurance exemptions” were removed as with the case of the 2014 Tax Expenditure Statement as they are not generally considered to be tax expenditures. This is because subjecting such services to a value added tax is usually difficult to administer globally. In a similar vein, the “GCT Petroleum Fuel exemption” was also withdrawn from the 2014 Statement because locally, fuel is already subject to a reliable and administratively efficient alternative tax i.e. the SCT; which is in line with many countries (such as Uruguay) that do not apply a value added tax to fuel. Precedence for removing these exemptions was already set for example, in the New Zealand context. In New Zealand’s 2013 Tax Expenditure Statement (p. 9), it was specifically mentioned that the country’s “GST Financial Services exemption was removed as it was not considered to be a tax expenditure” going forward.

## Special Consumption Tax Expenditures

The SCT expenditures are first broken down based on imports *versus* domestic supplies and then, under the Imports category, based on the legislation which grants the tax expenditure. Ideally these two categories should be merged and the tax expenditure estimates of domestic sales and imports combined but unfortunately, the captured SCT return data does not provide sufficient information to properly disaggregate the reported tax expenditures by product type.

SCT expenditures are provided for under the *GCT Act*, which enacts the SCT, various incentive Acts, defined in the constituting documents of some organizations, or through waivers allowed under various pieces of legislation such as the *GCT Act* and the statutory powers of the Honourable Minister of Finance.<sup>4</sup>

Under the *GCT Act*, the tax expenditures are related to the exemption schedule for the GCT. This is due to the change in the tax treatment of motor vehicles, which used to be taxed at special rates under the GCT, but are currently taxed at the standard GCT rate coupled with an SCT. As a result, provisions in the *Act* which used to relate to relief for GCT for motor vehicles for certain purposes, were amended to allow for relief from SCT.

Additionally, a number of tax incentive Acts providing exemptions from payment of SCT on designated supplies, petroleum fuels and motor vehicles for the most part were also introduced.

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<sup>4</sup> Similar to last year's Tax Expenditure Statement, the SCT expenditures are disaggregated into two components i.e. *Specific* and *Ad Valorem*.

The Royal Charter of the University of the West Indies provides for certain exemptions from taxes under the *GCT Act*. Tax expenditure estimates reported here strictly pertain to SCT exempted on imports.

The “Waivers” category only includes those waivers granting reductions in tax payable at time of import.

Note that there were some notable policy changes that were undertaken in the past which would have implications for the tax expenditure estimates. For example, in 2014, the SCT regime for alcohol was modified to unify the *Specific* SCT on all alcoholic beverages at a single rate of \$1,120 per litre of pure alcohol. These adjustments were factored into calculations of the annual tax expenditure estimates.

Finally, the “Domestic Sales” category is broken down by sales reported on the SCT as being *exempt*, versus sales reported on the SCT return as being *zero-rated*.

**Table 7.1: Special Consumption Tax (*Ad Valorem*) Expenditures<sup>‡</sup>, 2018-2020**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
	Imports for Agriculture and Fishing	0.0	0.0	0.0	0.0	0.0	0.0
	Airline Industry						
	Alcohol	0.0	0.0	0.0	0.0	0.01	0.0
	Vehicle	0.66	0.0	10.74	0.02	12.84	0.11
	<b>Buses</b>						
	Vehicle	181.51	0.0	134.20	0.28	7.21	0.06
	Vehicles for specified Persons	1,039.04	0.02	1,186.75	2.47	948.18	8.45

*Source:* Computed by the Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of particular tax expenditure would not necessarily yield the full tax revenue shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data.

**Table 7.1: Special Consumption Tax (*Ad Valorem*) Expenditures<sup>†</sup>, 2018-2020 (Continued)**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
<b><i>Incentive Acts</i></b>							
Bauxite and Alumina Incentive	Imports by Bauxite and Alumina companies	913.49	0.02	442.92	0.92	40.21	0.36
	Fuel Vehicle	5.53	0.0	42.48	0.09	0.09	0.0
Motion Picture Incentives	Imports by motion Studio	0.0	0.0	0.0	0.0	0.0	0.0
Free Zones	Tobacco	- b	- b	- b	- b	- b	- b
	Vehicle	- b	- b	- b	- b	- b	- b
	Alcohol	- b	- b	- b	- b	- b	- b
	Fuel	- b	- b	- b	- b	- b	- b
Public Transport Incentive	Imports for the Public transport (corp. area) programme	0.08	0.0	0.198	0.0	0.09	0.0
<b><i>Other Act or Charters</i></b>							
University of West Indies Royal Charter	Imports for educational purpose	0.71	0.0	3.86	0.01	0.0	0.0
Charities Act		19.09	0.0	8.99	0.02	5.46	0.05



**Waivers and Reimbursements**

Various	Waivers on imports	16.02	0.0	13.19	0.03	3.30	0.03
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<b>Reported Net Tax (i.e. <i>Ad valorem</i> + <i>Specific</i>)</b>	42,941.70	48,002.79	39,685.04
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Source: Computed by the Ministry of Finance & the Public Service.

Notes: †The abolishment of particular tax expenditure would not necessarily yield the full tax revenue shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data.

**Table 7.2: Special Consumption Tax (*Specific*) Expenditures<sup>‡</sup>, 2018-2020**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
<b><i>GCT Act</i></b>							
	Airline Industry:						
	Alcohol	2.05	0.0	3.91	0.01	0.65	0.0
	Fuel	0.0	0.0	0.0	0.0	0.0	0.0
	Tobacco	0.51	0.0	0.01	0.0	0.0	0.0
	Imports of Buses						
	Vehicles for specified persons	-	-	-	-	-	-
<b><i>Incentive Acts</i></b>							
Free Zone	Imports of Free Zone	- <sup>b</sup>	- <sup>b</sup>	- <sup>b</sup>	- <sup>b</sup>	- <sup>b</sup>	- <sup>b</sup>
Incentive	company						
	Tobacco	0.0	0.0	-	-	-	-
	Fuel	6,310.36	14.69	4,611.14	9.61	2,132.91	7.49
Bauxite and Alumina Incentive	Imports by Bauxite and Alumina companies	0.0	0.0	0.0	0.0	0.0	0.0

*Source:* Computed by the Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of particular tax expenditure would not necessarily yield the full tax revenue shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data.

**Table 7.2: Special Consumption Tax (Specific) Expenditures<sup>‡</sup>, 2018-2020 (Continued)**

Tax Provision	Description	2018		2019		2020	
		J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
<b><i>Incentive Acts</i></b>							
P/Transport Incentive	Transport (corporate area) programme	-	-	-	-	-	-
<b><i>Other Act or Charters</i></b>							
University of West Indies Royal Charter	Imports for educational purpose	-	-	-	-	-	-
<b><i>Waivers and Reimbursements</i></b>							
Various	Waivers on imports	0.0	0.0	0.0	0.0	0.0	0.0
<b><i>Domestic</i></b>							
Various	Partial Waivers on Fuel for JPS	1,319.07	3.07	1,509.20	3.14	641.20	1.62
<b>Reported Net Tax (i.e. <i>Ad valorem</i> + Specific)</b>		42,941.70		48,002.79		39,685.04	

Source: Computed by the Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of particular tax expenditure would not necessarily yield the full tax revenue shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. Computed tax expenditures and reported net tax amounts based on available returns data.

**Note:**

<sup>b</sup> Not applicable. Based on discussions with a 2015 IMF Mission Team, we removed the “SCT Expenditure on Ethanol” and all tax expenditures associated with Free zones from Table 7.2 going forward. In the case of the ethanol, the rationale is that such incentives were implemented in order to rectify an unintended consequence of applying the then SCT of J\$960 on all alcohol (rather than targeting drinkable alcohol only and not ethanol used in the manufacturing process). As a consequence, such policy reform did not accurately represent the creation of a tax expenditure in the formal sense. IMF staff also then agreed in principle that in general, expenditures associated with free zones are not usually classified as tax expenditures *per se*.

## **Trade Tax Expenditures**

The tax expenditures for Import Duty and the Customs Administration Fee are broken down based on the legislation which facilitates each of the tax expenditures. Import Duty expenditures are provided for under the *Customs Act*, various incentive Acts, defined in the charters of some organizations, or through waivers allowed under various pieces of legislation.

Under the *Customs Act*, tax expenditures for import duty are provided for under the Second and Third Schedule to the *Act*, by allowing for reduced rates of duty (in most cases, zero per cent) for specified imports for specified reasons or importers. The expenditure estimates have been summarized by broad categories, in order to provide consistent classifications with the GCT expenditures. Certain regulations were also in place to waive the CAF on imports for specific programs.

Most tax incentive Acts provide for a concession on import duty for capital machinery and equipment, and some consumables, specific to the industry in question. More limited exemptions are provided for the CAF. Since January 1, 2014, the Government implemented policy changes as per *The Fiscal Incentives (Miscellaneous Provisions) Act, 2013* which endorsed changes to the structure of incentives offered to commercial importers with respect to duty relief on productive inputs. *The Fiscal Incentives (Miscellaneous Provisions) Act, 2013* is the overarching incentive legislation and supplants repealed enactments as outlined in the legislation (*Fiscal Incentives (Miscellaneous Provisions) Act 2013*, p. 3). As such expenditures for some incentives previously reported on from 2014 and thereafter, will be excluded. There is a

grandfathering process for these incentives and as such some tax expenditure will continue to accrue from these incentives at reducing levels over time.

The Royal Charter of the University of the West Indies provides for certain exemptions from import duty.

Lastly, the “Waivers” category only includes those waivers granting reductions in tax payable at time of import.

**Table 8: Import Duty Expenditures<sup>‡</sup>, 2018-2020**

Tax Provision/Description	2018		2019		2020	
	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax	J\$M	% Reported Net Tax
<b><i>Customs Act, Second Schedule</i></b>						
Agriculture and Fishing	0.0	0.0	0.0	0.0	0.0	0.0
Airline Industry	65.97	0.16	71.01	0.16	24.98	0.06
Education	19.35	0.04	26.95	0.27	6.53	0.02
Health Care	0.05	0.0	0.00	0.0	0.0	0.0
Postal	-	-	-	-	-	-
Religious or Charitable Purposes	82.08	0.20	58.12	0.13	808.13	2.01
Scientific or Research Purposes	-	-	-	-	-	-
<b><i>Customs Act, Third Schedule</i></b>						
Agriculture and Fishing	35.14	0.09	71.07	0.16	30.06	0.07
Education	0.0	0.00	0.00	0.00	0.0	0.0
Electrical Generation	1.79	0.00	0.18	0.00	0.0	0.0
Energy Conservation	118.75	0.29	203.37	0.46	123.29	0.31
Fire Fighting	4.99	0.00	12.83	0.03	16.23	0.04
Health Care	-	-	-	-	0.0	0.0
Manufacturing	50.72	0.00	32.77	0.07	56.4	0.14
Mining	0.00	0.00	0.00	0.00	0.0	0.0

Packaging and Shipping Materials	0.00	0.00	56.50	0.13	5.69	0.01
Printing and Printed Materials	0.04	0.18	2.69	0.01	1.26	0.00
Shipping						
Scientific or Research Purposes	0.00	0.00	0.08	0.00	0.01	0.00
Sports Equipment	45.59	0.11	45.17	0.10	26.29	0.07
Telecommunications	12.34	0.03	13.89	0.03	22.83	0.06
Vehicles for Specified Persons	0.00	0.0	0.00	0.00	0.0	0.0
<b><i>Incentive Act</i></b>						
Export Incentive	18.34	0.04	31.63	0.07	4.22	0.01
Free Zones	- <sup>e</sup>	- <sup>e</sup>	- <sup>e</sup>	- <sup>e</sup>	- <sup>e</sup>	- <sup>e</sup>
Hotel Incentive	31.18	0.76	26.72	0.06	27.80	0.07
Manufacturing	0.00	0.00	0.00	0.00	0.0	0.0
Mining	4,890.61	12.03	3,903.03	8.79	1,257.95	3.13
Motion Picture Incentive	30.13	0.07	4.03	0.01	2.30	0.01
Petrol Incentive	123.65	0.30	304.73	0.69	205.50	0.51
Public Transport Incentive	0.15	0.00	0.36	0.0	0.16	0.0
Pioneer Industry Incentive	0.00	0.00	0.00	0.00	0.0	0.0
<b><i>Religious or Charitable Purposes</i></b>						
Relig. or Char. Purpose	1,727.77	4.25	1,223.71	2.76	933.72	2.33
Health Care	0.03	0.00	0.02	0.00	0.04	0.0
<b><i>Omnibus Act</i></b>						



Health Care	36.23	0.09	122.57	0.28	56.63	0.14
Hotel Incentive	1,857.77	4.57	1,974.14	4.45	960.12	2.39
Manufacturing	6,985.37	17.18	7,356.89	16.58	7,377.95	18.38
Motion Picture Incentive	8.18	0.02	29.58	0.07	10.46	0.03
Packaging & Shipping Mat.	1,898.50	4.67	2,213.99	4.99	2,156.81	5.37
Tourism	318.68	0.78	323.67	0.73	54.51	0.14
<b><i>Separate Charter</i></b>						
Education	136.37	0.34	135.25	0.30	111.04	0.28
Remission Under Own Act	32.20	0.08	29.91	0.07	18.15	0.05
Trade or Other International Accord						
CARICOM	11,248.72	27.18	0.00	0.00	0.0	0.0
EPA	46.91	0.12	0.0	0.0	0.0	0.0
<b><i>Waivers</i></b>						
Full Waiver	1,814.83	4.46	350.99	0.79	309.82	0.77
Partial Waiver	0.00	0.00	0.00	0.00	0.0	0.0
<hr/>						
<b>Reported Net Tax</b>	<b>40,668.22</b>		<b>44,365.39</b>		<b>40,138.99</b>	

Source: Computed by Ministry of Finance & the Public Service.

Notes: ‡The abolishment of particular tax expenditure would not necessarily yield the full tax revenue shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit.

**Note:**

<sup>e</sup> Figure not applicable - The “Free Zone expenditures” were removed as they are not generally considered to be tax expenditures.

**Table 10: Customs Administration Fee Expenditures<sup>‡</sup>, 2018-2020**

Tax Provision/Description	2018		2019		2020	
	J\$M	% of Net Tax	J\$M	% of Net Tax	J\$M	% of Net Tax
<i><b>Omnibus Incentive Act</b></i>						
Manufacturing	293.64	2.65	292.53	2.47	268.72	2.51
Mining	0.00	0.00	0.00	0.00	0.0	0.0
Pack. & Shipping Mat.	138.44	1.25	120.72	1.02	117.44	1.10
Relig. or Charit. Purpose	37.91	0.34	29.30	0.25	23.86	0.22
Trade and other International Accord	23.97	0.21	0.0	0.21	0.0	0.0
<b>Reported Net Tax</b>	<b>11,093.76</b>		<b>11,849.99</b>		<b>10,701.33</b>	

Source: Computed by Ministry of Finance & the Public Service.

Notes: <sup>‡</sup>The abolishment of a particular tax expenditure would not necessarily yield the full tax revenue shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures. Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. n.a. means not applicable.

## **Waiver Policy and Strategy**

Essentially, the current waiver policy and strategy regarding discretionary waivers/remissions facilitates a structured rule-based approach with a defined cap. Changes in the Strategy were consequent on arrangements reflected in the *Memorandum of Economic and Financial Policies* (MEFP) under the Extended Fund Facility arrangement with the International Monetary Fund. This strategy provides for limitation of the discretionary authority of the Minister with responsibility for Finance *via* a monthly cap of \$10 million i.e. \$120 million per year. The policy also indicates that waivers under the cap may only be used in the case where there is no statutory provision allowing for said relief.