PRESS CONFERENCE - POST HMF OPENING BUDGET SPEECH

This Press Conference has been called to ensure that we all have a clear understanding of the central message of this year's budget, and a shared understanding of the revenue measures that were presented and the context in which the total revenue package was crafted.

Overall, what we have tried to do is to convey two central messages. Firstly, the absolute necessity of the country staying the course in relation to fiscal consolidation and economic reform; and secondly, to highlight the priority of the growth agenda.

With respect to the first aspect of the message, the tax measures presented in the budget will ensure that Jamaica fulfills its commitment to achieve a 7.5% Primary Surplus Target for this fiscal year, and continue on the path to reduce the public debt as a percentage of GDP. By reducing the level of debt, we will begin to unlock the growth potential of Jamaica's economy.

The legislative and administrative reforms already undertaken, and to be implemented in this fiscal year, together with the fiscal consolidation efforts and the funding for capital projects and financing being made available through the DBJ provide further evidence of our commitment to the second aspect of our message, that of achieving greater levels of growth.

We must not forget that Jamaica has suffered from a serious 'trust deficit' with our international development partners who believed- certainly at the beginning of this administration- that Jamaica was not serious about rehabilitation of the country's economy, and taking the actions necessary to restore the economy to sustainable growth.

We must also not forget the sacrifices that have been made to get us to where we are now in the programme of economic reform. I am referring to the public sector workers who agreed to a further three years of wage restraint. I am referring also to the Bondholders, to our creditors, including pensioners and others who agreed to lower returns on their investment in order to facilitate the reform effort; and of course, we should remember the general populace of Jamaica who endured increases in the cost of the living.

"The only way out of our present difficulties is to continue with the programme, pass more IMF tests, get access to more multilateral support, secure investments and achieve our mission of sustained economic growth, and job creation." (Quote from Budget Speech)

Thus far the sacrifices have not been in vain; they are working. Growth has returned. Agriculture, Mining , Tourism, Construction and the ICT/BPO sectors are all growing at credible levels. I indicated in my budget speech that last year, the DBJ provided $8.2 billion in loans which unlocked $15.0 billion of investment. Another encouraging sign has been the growth in activities in the MSMEs sector of the economy which last year received funding from the DBJ of approximately $2.3 billion which exceeded the target set by 15%.

SPECIFICS OF THE BUDGET FOR 2014/15

The budget for 2014/15 has been set against the background of the critical importance of attaining the primary surplus target, which is one of the most important targets against which fiscal performance is measured. Expenditure has had to be contained and kept in line with the country's ability to fund government's operations.

The 2014/2015 expenditure budget is estimated at $540.1 billion, $233bn or 42% will go towards debt servicing and $324bn and the remainder will go towards wages and salaries, capital projects and recurrent programmes. Some $161bn has been provided to meet wages and salaries of public sector workers.

Within the limits of the available resources, strong commitments have been made (i.e. increases beyond the rate of inflation) towards:

- social expenditure;
- improving the physical infrastructure: and,
- improving public security and the justice system.

With respect to social expenditure, a total of $22.6 billion has been reserved for a set of social programmes. This represents an increase of approximately $2.0 billion over the amount provided last year and will allow for increases, among other things, to PATH beneficiaries similar to that given last year. To this must be added, the assistance provided to the Students' Loan Bureau and the measures to be implemented that will enhance access to the SLB. For example, agreeing to an increase in the age for guarantors and changing the method of computation of interest payable.

With regard to spending on physical infrastructure in this year's budget, the primary focus will be on road infrastructure which will be executed through MIDP and other programmes of the Ministry of Transport, Works and Housing. This infrastructure development is important to growth and a necessary convenience for people in their individual communities.

- Capital expenditure will be enhanced by the Investment and Capital Expenditure of other public bodies. Investment infrastructure and expenditure on other capital projects of the public bodies, particularly of the NWA and NHT, are estimated at $53.9 billion.

FINANCING THE 2014/15 BUDGET

- This year's central government budgeted expenditure amounts to $540.1 billion and with revenues and grants projected at $421.2 billion, there is a funding gap of $118.9 billion. This is to be financed by loan receipts of $110.9 billion, utilization of balances in the banking system of $1.4 billion and inflows from new revenue measures of $6.7 billion.

- It is worth noting that this is one of the smallest revenue packages ever presented, particularly as some $1.2 billion of the revenue package represents a transfer from the Road Maintenance Fund to the Consolidated Fund. So the 'real' revenue package is $5.5 billion.

- I had indicated in January of this year that there was no intention to introduce new taxes in this fiscal year 2014/15. However, revenue fell short of expectations in the last quarter of the fiscal year (In fact there was a revenue shortfall of about 5% for the full fiscal year) due to factors beyond our control such as the decline in oil prices which reduced the ad valorem tax take, and the general reduction in the value of imports which meant that taxes collected at the border were much lower than expected. There were also changes in the structure of employment, that we are now investigating, which suggest that more persons are being employed on contracts which resulted in a fall-off in PAYE collections.

- This highlights the perennial problem that we face, that is the case of **"too few pay and too many don't pay".** As far as the tax/GDP ratio is concerned, Jamaica with a tax/GDP ratio of 23% is on the lower end of this ratio when compared to other countries in the region which are at a similar stage of economic development.

- The reality is that when we initially looked at the budget in December last year, there was a financing gap of about $10.0 billion and this position worsened by February , with a reduction in tax revenue. This was whittled down to the $6.7 billion through fees from existing licences and sale of new licences in the telecommunications sector ; projected collection of taxes that were previously announced but not collected and projected increased compliance efforts. For example, the Minimum Business Tax and adjustments in relation to BGLC were previously announced but not collected because the requisite legislative amendments were not passed.

- Given that deviating from the 7.5% Primary Surplus Target was not an option because of our commitments to bondholders and international development partners and the capital markets (because the budget includes borrowing from all three), there was no other option but to introduce additional tax measures. It was not an option because it would have negated all the sacrifices made by the various stakeholders and would have put us back to where we started. It was not an option because as borrowers, we would have been closed out of access to the multilateral agencies, domestic bondholders and international capital markets. The improvement in our sovereign credit ratings would have been wiped and the 'trust deficit' would be widened further than before.

- Let me restate with absolute clarity what I said in the Parliament; the imposition of revenue raising measures is not something that this administration takes lightly. For this reason a number of revenue-raising alternatives were examined, but all the alternatives considered would have placed more burden on ordinary Jamaicans the people less able to pay and would have had more far reaching negative impact on the economy. There was also a concern about not imposing taxes that would do anything to disrupt the genral trajectory of a downward trend in rates which is a central tenet of the tax reform effort.

- What were the alternatives posited?:
    - Raise the rate of Personal Income Tax. This would have gone against the general principle of lowering rates and continued to affect the same burdened group of taxpayers. (PAYE Group)
    - Raise the rate of GCT. This likewise would have sent a confusing signal about the principle of lowering of rates and would have been burdensome.
    - Revert to the previous administration's position of the imposition of GCT on all residential customers that was introduced. Lowering the threshold for payment of GCT on electricity for residential customers would have resulted in a substantial increase in the number of persons facing increased costs. Consideration was also given to the especially some of the persons engaged in micro enterprises activities who operate out of residential properties and who would therefore have been affected by this measure.
    - Impose a SCT on sweetened drinks. This would have been difficult to explain and collect and would have put a burden on parents who now put sweetened fruit drinks in children's lunch boxes.
    - Expand the list of items subject to GCT. This would have met an increase in the number of basic items being subject to GCT

and these items, again, are used substantially by the most vulnerable in the society.

- Increase the tax take from petroleum. This would have had an adverse impact on all sectors of the economy because of the pass-through effect of petroleum prices and the inflationary impact would have been severe.

- In looking at the alternatives, we asked the question: Are there options that have a wide enough base that would allow for a low tax rate and still achieve the desired revenue yield?

- The fact is that we had a case of "Anywhere you turn, macka gwine juck you". We had to pick the "macka" that caused the least pain.

- We have tried to craft a tax package that is aimed at having the least impact on the most burdened taxpayer.

- With respect to the institutional levy on certain financial transactions, let me repeat what I said in the House. It is clear that what is intended is a levy on the deposit-taking institutions and securities dealers. A particular method is to be used to compute the revenue measure .

  (i) This levy will be chargeable on all withdrawals from deposit taking institutions by way of:

    (a) Electronic Banking

    (b) Point of Sales transactions

    (c) Cheques

(d) ABM/ATM/ETM or over the counter

(e) Internet Transfers (with the exception of transfers between accounts of the same person in the same financial institution)

(ii) This levy will be charged on encashments from securities dealers whether partial or in full.

- The levy is intended for the institution to pay.

- However, if the institution wishes to pass on the costs, partially or in full, let us examine the impact that it will have.

- If all the cost of the transaction is passed on and with the rate used for transactions up to $1mn. being 0.1%, which means that:
    - for a withdrawal of $1000 transaction, the levy would be $1.00,
    - for a withdrawal of $400,000 the levy would be $400 and,
    - for a withdrawal of $1 million, the levy would be $1000

- This possible cost to the taxpayer must also be looked against the background of the increase in the income tax threshold by $49,920 which provides taxpayers with $12,480 in tax relief per year. Based on this calculation, the taxpayer would have to make withdrawals of in excess of $12.8 million (of at most $1m each) before he exhausts the income relief gained from the income tax threshold increase.

- It must also be borne in mind that for withdrawals in excess of $1mn, which businesses may be subject to, the rate of the tax levy declines down to a minimum of 0.05%. The full scale of levy rates is included below:

Levy Rates on Withdrawals from deposit taking institutions and securities dealers	
Value of Transaction	**Levy Rate**
Less than One (1) Million Dollars	0.1%
One (1) Million to Five (5) Million Dollars	0.09%
Greater than Five (5) Million – Less than Twenty (20) Million Dollars	0.075%
Greater than Twenty (20) Million Dollars	0.05%