

Monitoring and Evaluating Jamaica's Alcohol Tax Policy‡

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The views expressed hereinafter, are not necessarily those of our affiliated institutions.

Outline of Presentation

- ✓ Introduction
- ✓ Research Objectives
- ✓ Jamaica's *Specific* SCT on Alcohol
- ✓ Impacts of Alcohol Tax Changes
- ✓ Conclusions and Future Work

Introduction

- Roughly **2.7 million** persons live in the Caribbean island of Jamaica. Our country has an **hybrid tax system** i.e. a mix of *direct* and *indirect* taxes being levied (greater reliance on the latter). The **Special Consumption Tax (SCT)** is a crucial tax type.
- Essentially, the SCT is an *indirect* excise tax levied on tobacco, alcoholic beverages, petroleum products and motor vehicles. Focus today is on **alcohol**.

Intro, cont'd

Presently, the SCT on Alcohol, is *specific* in nature (i.e. levied on the unit of the product/volume).

Major policy reform of the SCT structure for alcoholic beverages occurred on **December 1, 2010**.

Since then, alcoholic beverages taxed based on alcohol content (using specific rather than ad valorem SCT rates) rather than class of beverage.

Intro, cont'd

Then major **rationale** of the policy to reform the excise tax structure for alcoholic beverages were that various independent studies illustrated that the then *ad valorem SCT* charged on alcoholic beverages had:

- ✓ severely distorted competition within the local alcoholic beverage sector,
- ✓ frustrated responsible drinking efforts and
- ✓ unfairly penalized beverages with relatively lower alcohol content e.g. Beer.

Intro, cont'd

These distortions had to be addressed. Jamaica did the policy reform on a gradual basis.

Hitherto **December 2010**, different *ad valorem* SCT rates were levied on inter alia *Beer, Spirits* and *Wine*.

Effective **April 22, 2014**, further tax reform led to unification i.e. a single *Specific* SCT rate for all alcoholic beverages locally.

Intro, cont'd

Note that since **March 13, 2017**, Jamaica's *Specific* SCT on all alcoholic beverages rose by roughly 9.8 per cent to \$1,230 per **litre of pure alcohol** (L.P.A.) (up from the previous rate of \$1,120 per L.P.A.).

Table 1: Major Tax Types as a Percentage of Total Tax Revenue, 1989-2018

Year[‡]	Income^a	PIT	Corporate	GCT	SCT	Ed. Tax	GCT & SCT
89/90	41.8	19.9	11.2	n.a.	n.a.	3.3	n.a.
90/91	47.0	21.8	16.5	n.a.	n.a.	3.9	n.a.
91/92	42.2	22.8	13.4	11.9	n.a.	3.7	n.a.
92/93	41.4	19.6	14.2	21.4	n.a.	3.5	n.a.
93/94	37.6	17.8	14.3	28.0	6.9	3.6	34.9
94/95	40.4	19.3	15.1	28.6	6.2	4.0	34.8
95/96	37.6	19.6	13.7	31.4	6.1	4.1	37.5
96/97	39.2	22.7	11.3	30.6	5.2	4.8	35.8
97/98	39.3	23.5	10.1	30.2	6.2	5.3	36.4
98/99	38.6	23.7	9.1	29.2	7.7	5.0	36.9
99/00	38.7	19.8	9.2	26.8	11.3	4.7	38.1
00/01	40.7	20.0	8.8	25.7	11.2	4.4	36.9
01/02	39.2	21.8	7.4	25.7	11.6	4.7	37.2
02/03	39.4	22.7	7.7	27.4	10.3	4.7	37.6
03/04	41.4	22.2	7.6	27.9	9.7	4.4	37.6
04/05	41.8	24.7	7.0	27.9	8.2	4.4	36.1
05/06	40.9	22.5	9.8	29.9	7.1	4.5	37.0
06/07	40.5	23.0	9.7	30.6	7.0	4.9	37.6
07/08	42.2	23.4	9.7	30.4	5.7	4.7	36.1
08/09	43.6	25.0	10.9	28.3	7.7	4.8	36.0
09/10	44.5	22.5	11.2	26.4	11.3	4.6	37.8
10/11	37.6	19.8	11.9	30.3	13.7	4.7	44.1
11/12	36.7	22.1	10.0	30.9	12.7	5.2	43.6
12/13	36.2	20.3	11.2	30.1	12.8	4.7	42.9
13/14	32.8	19.5	10.2	32.7	11.1	5.3	43.9
14/15	32.6	19.4	9.7	33.0	11.0	5.3	44.0
15/16	31.7	18.6	10.3	33.6	12.5	5.2	46.1
16/17	29.7	15.3	11.3	33.1	13.8	5.2	47.0
17/18	26.4	11.9	12.4	34.2	15.3	5.4	49.5
Mean	38.0	20.9	10.4	29.7	9.7	4.7	39.4
Median*	39.3	21.8	10.3	29.9	10.3	4.7	37.6

Notes: [‡]Refers to fiscal year i.e. April 1 of the starting year to March 31 of the following year. ^aTotal Income Tax comprises *inter alia* Corporate Income Tax and the Personal Income Tax (PIT) i.e. “Pay as You Earn” (PAYE) and the Self-Employed Average for the period 1993-2018. Median for full period 1989-2018. Discrepancies due to rounding.

Source: Compiled using data from the Ministry of Finance and the Public Service.

Evolution of *Specific* SCT Rate for Alcohol

Table 2: Evolution of Jamaica's *Specific* SCT on Alcohol Since 2010

Policy Implementation Date	<i>Specific</i> SCT Rate
Effective December 1, 2010	\$960 per LPA for <i>inter alia</i> Beer & Stouts and \$450 per LPA for White Overproof Rum.
Effective June 1, 2012	\$960 per LPA for <i>inter alia</i> Beer & Stouts and White Overproof Rum but \$700 per LPA for alcoholic beverages for Tourism.
Effective April 22, 2014	\$1,120 per LPA for all Alcoholic Beverages.
Effective March 13, 2017	\$1,230 per LPA for all Alcoholic Beverages.

Source: Ministry of Finance and the Public Service, Jamaica.

Research Objectives

We want to *inter alia*:

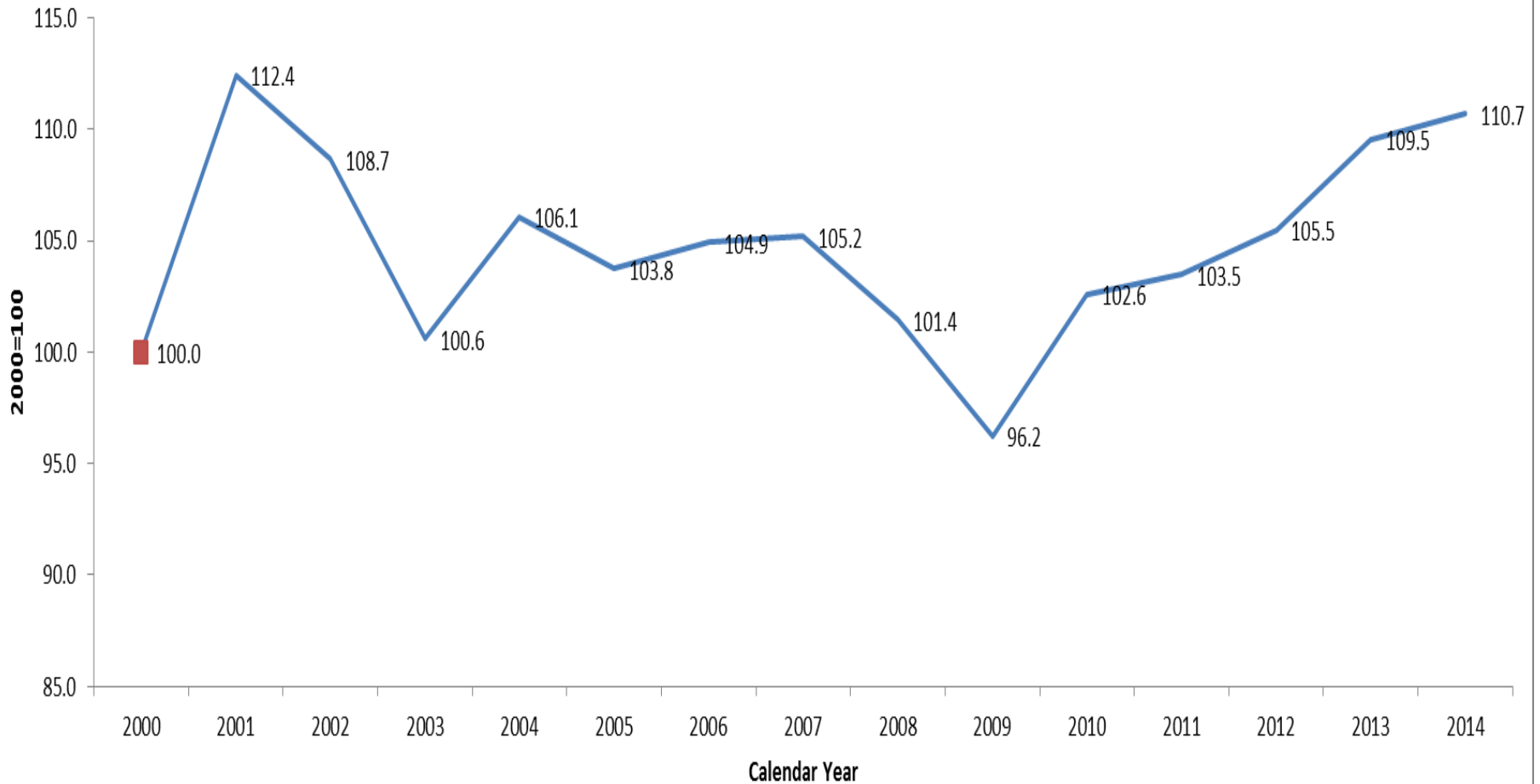
1. Explore the evolution of the *Specific* SCT rate on Jamaica's alcoholic beverages.
2. Comment on the efforts, progress and challenges in monitoring of Jamaica's tax policy on these products. Any lessons learnt from tobacco control?

The above **justifies our research!**

Impacts of the Alcohol *Specific SCT*

- ❑ Relationship between Tax and Consumption.
- ❑ Alcohol Excise Tax *vis-à-vis* Revenue.
- ❑ Affordability.

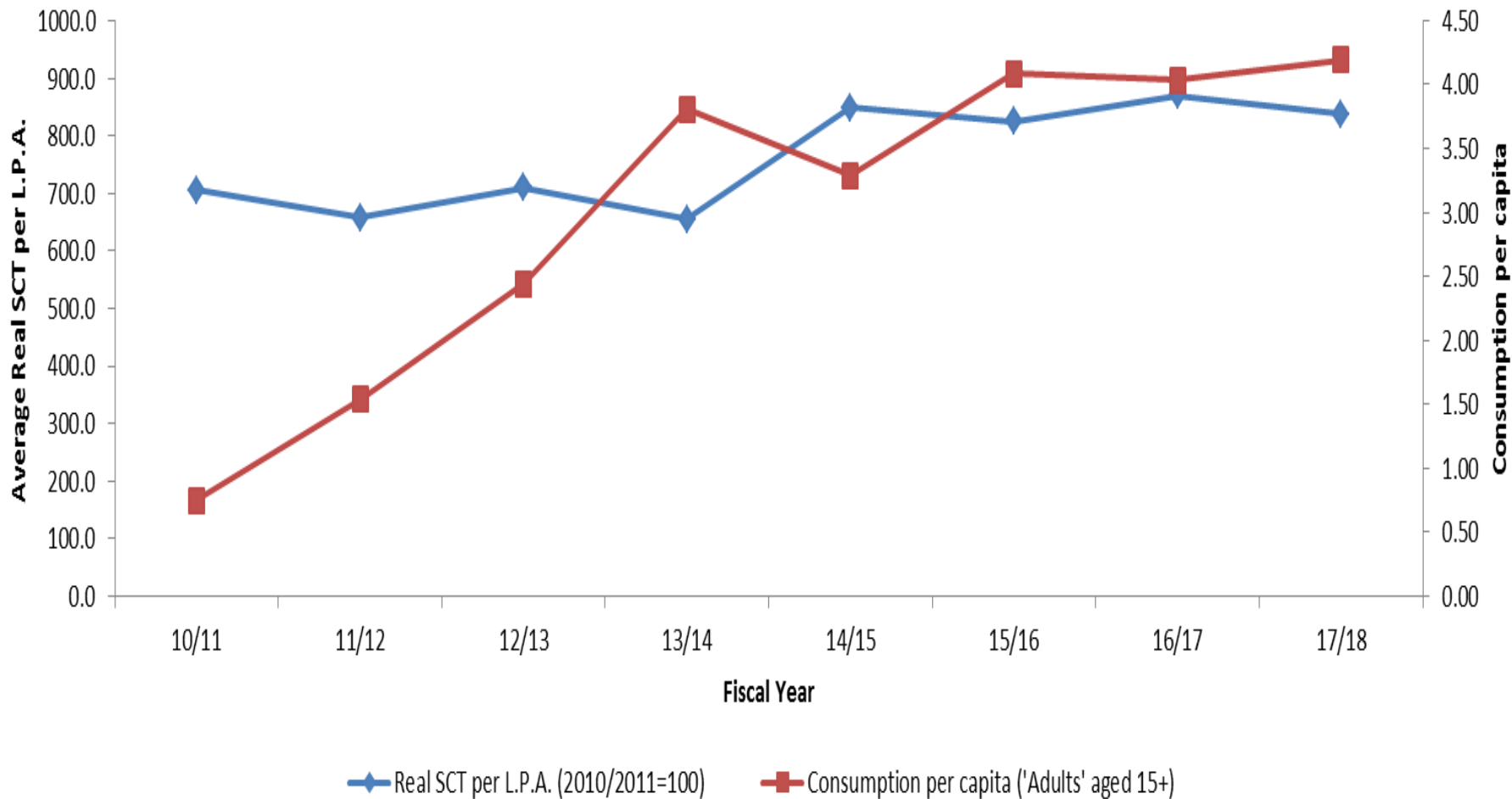
Figure 1: Jamaica's Adult Per Capita Alcohol Consumption Trend, 2000-2014



Source: Compiled by authors using the WHO's Global Health Observatory (GHO) data.

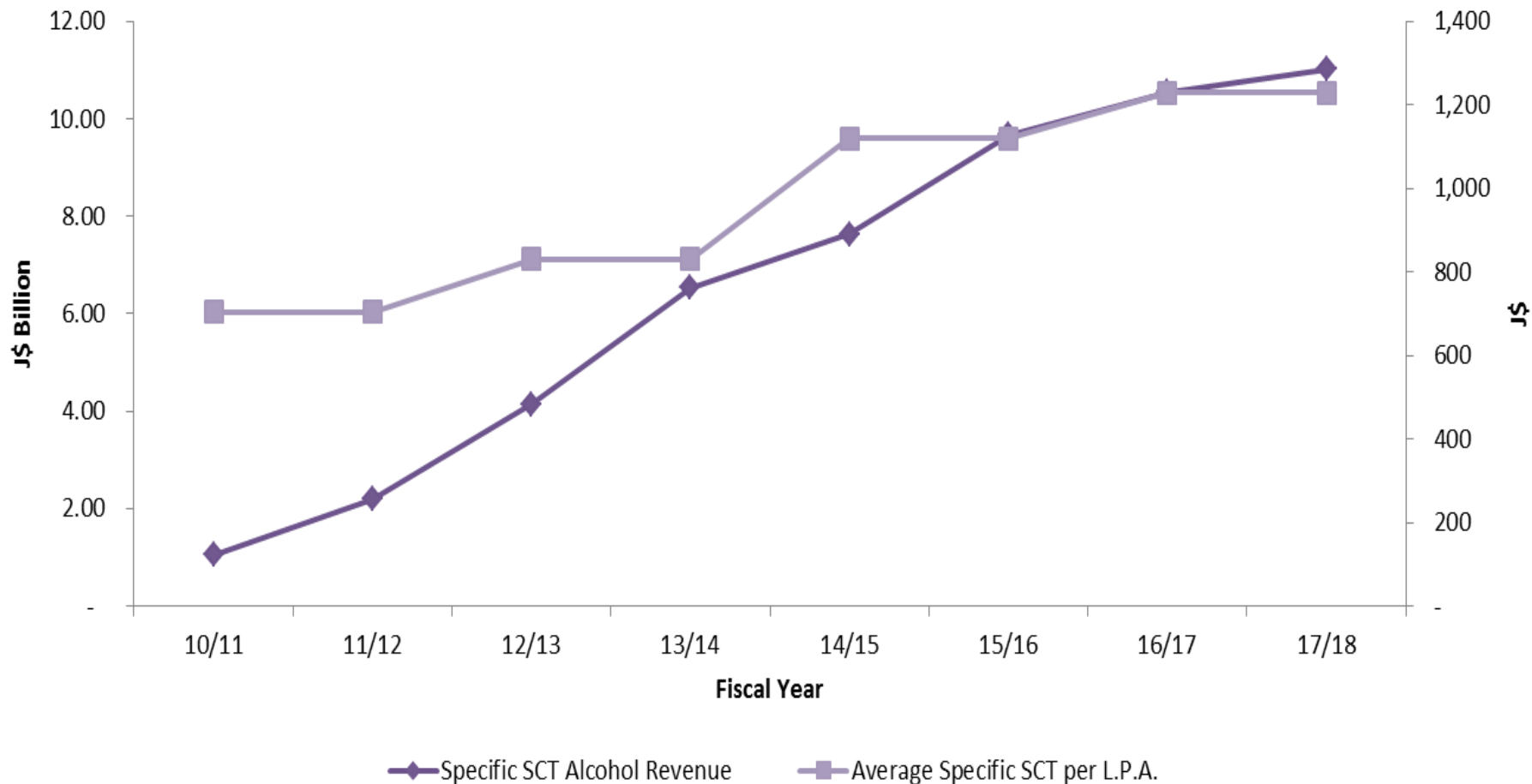
WHO Workshop on Developing a
Standardized Tax Share Indicator for
Alcohol and Sugar-Sweetened Beverages:
July 24-25, 2018, Washington D.C.

Figure 2: Negative Relationship Between Tax Rate and Alcohol Consumption in Jamaica, 2010-2018



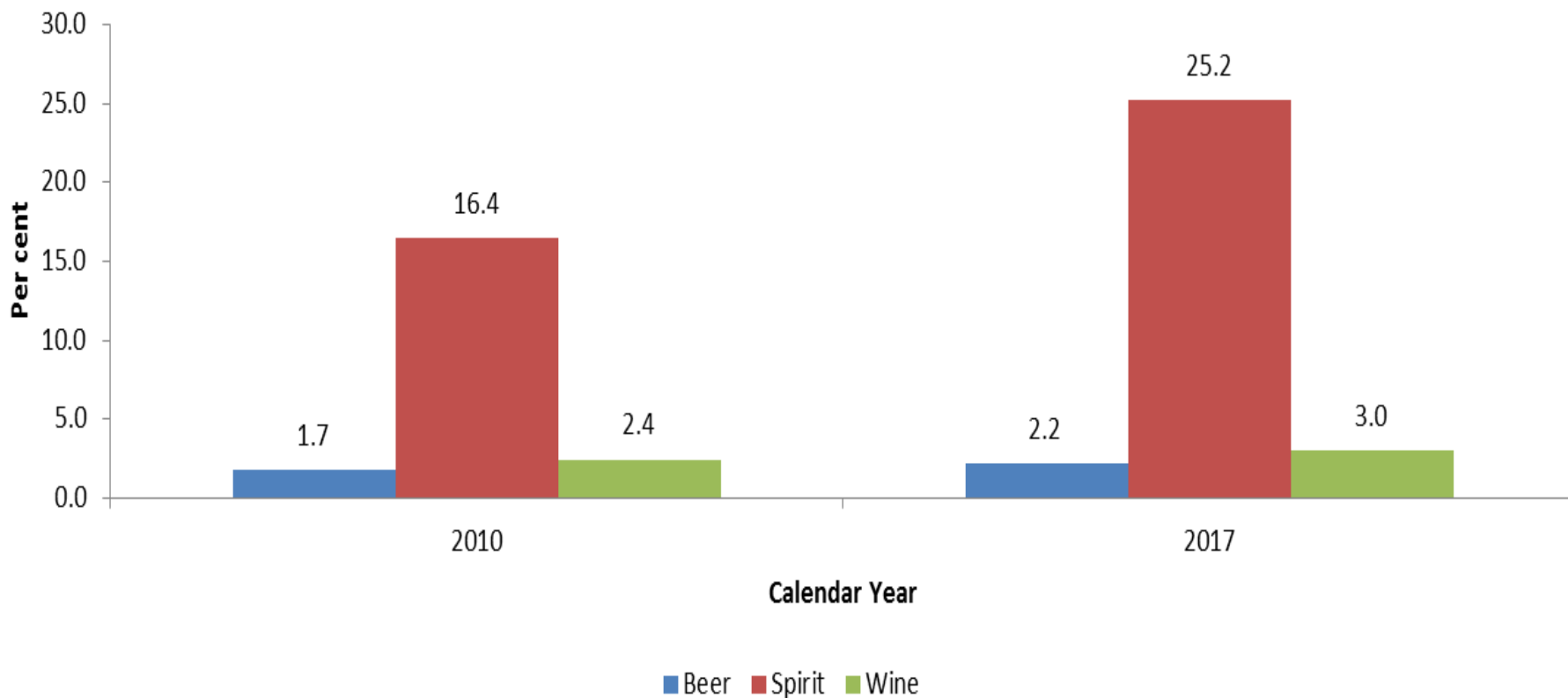
Sources: Compiled using data from Jamaica Customs Agency, Tax Administration Jamaica and Jamaica's Ministry of Finance and the Public Service.

Figure 3: Jamaica's Alcohol *Specific* SCT Revenue *vis-à-vis* the *Specific* Tax Rate, 2010-2018



Sources: Compiled using data from Jamaica Customs Agency and Jamaica's Ministry of Finance and the Public Service.

Chart 1: *Jamaica's Relative Income Price (RIP) of Selected Alcoholic Beverages, 2010 and 2017*



Notes: Most popular brand represented by each category. Applied affordability insights garnered from Blecher and van Walbeek (2004, p. 341) i.e. i.e. "An International Analysis of Cigarette Affordability", *Tobacco Control*, Vol. 13, No. 4, pp. 339-346

Sources: Estimated and compiled by authors partly using GDP and price data obtained from the Statistical Institute of Jamaica and a local alcoholic beverage retailer.

Conclusion and Future Research

- Our **major contributions**: We explored Jamaica's alcohol tax policy reform, with recent tax policy modifications mainly based on a need to reduce previously existing distortions. There is still **strong bi-partisan support** nationally on taxing 'SIN' products in general based on their potential harmful effects.
- Tax policy measures complement *inter alia* the Ministry of Health's initiatives aimed at limiting the harmful use of alcohol.
- To our knowledge, there is no legislation requiring minimum prices for alcoholic beverages.
- Our research has provided empirical evidence confirming *inter alia* that: (i) there is a **strong, positive and highly significant correlation** (i.e. +0.96) between the country's *Specific* SCT rate on alcohol and its *Specific* SCT revenue and (ii) Jamaica's major alcoholic beverages have become **relatively less affordable** (more expensive) since 2010.

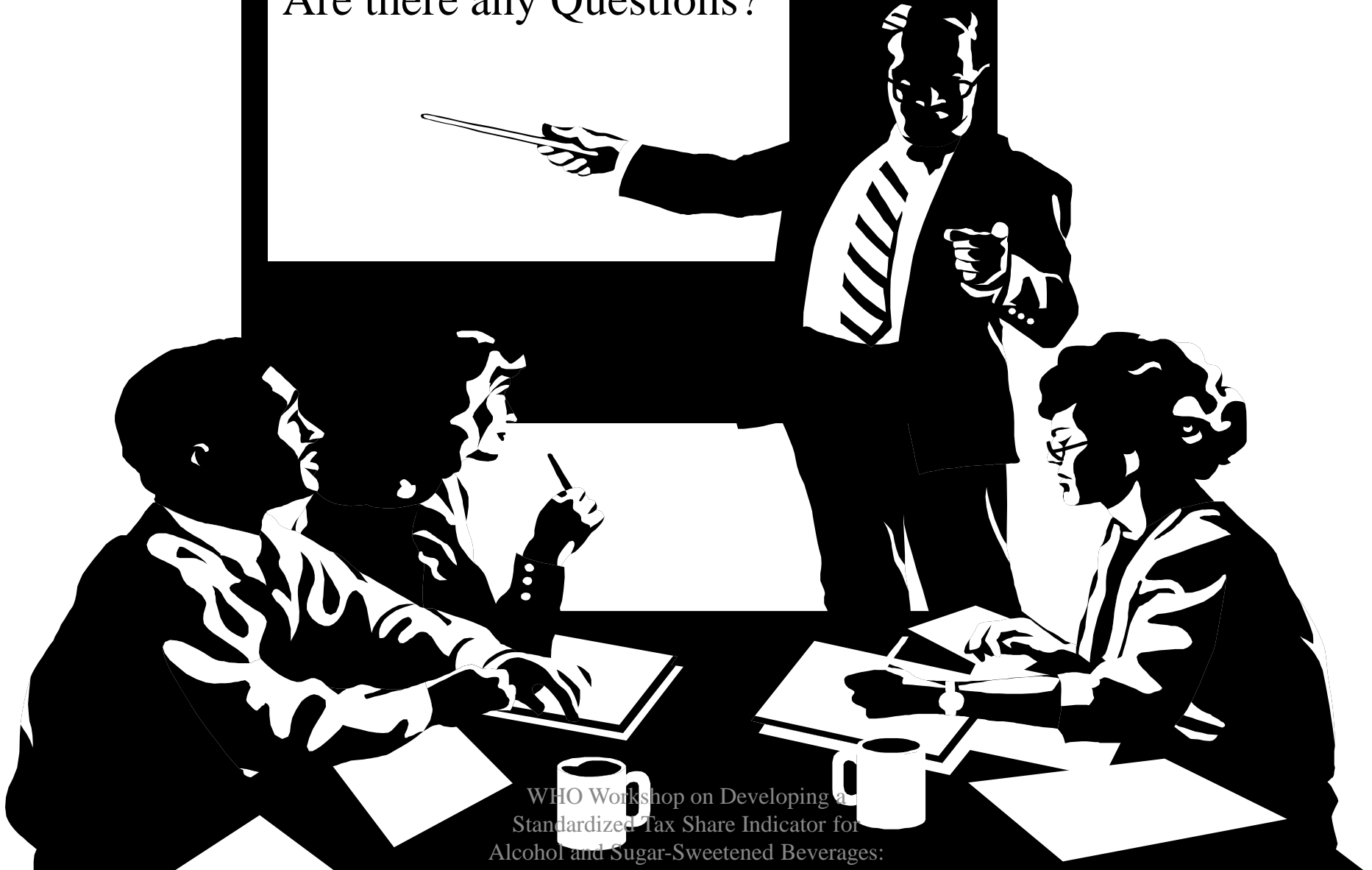
Conclusion, cont'd

- For example, the cost to purchase 100 bottles (each containing 750ml or 0.75 litre of liquid) of the most popular *Spirit* in Jamaica has increased to **25.2 per cent** of Per Capita GDP in **2017**, up from **16.4 per cent** of Per Capita GDP in **2010**. The most popular brands *of* beer and wine were also made relatively less affordable over time.
- In this vein, Jamaica's recent alcohol tax policy has been a success. Furthermore, the policy changed had closed loopholes at the ports by arguably **abolishing the incentive to under-invoice or misclassify** alcoholic beverages since the tax is no longer based on the price or beverage class. Furthermore, no longer are low alcohol content beverages taxed heavily. In sum, much **progress** has been made.
- Unfortunately, not many **lessons** from tobacco control to be applied here though as the products are not only different (cigarettes are lighter and relatively easier to smuggle than alcohol) in nature but also due to the fact that the majority of alcoholic beverages are manufactured locally rather than exclusively imported. **Border protection challenge** generally.

Conclusion, cont'd

- Nonetheless, some **data challenges** exist in the on-going monitoring and evaluation of Jamaica's alcohol tax policy.
- **Future work** attempting to estimate the respective **elasticities** for *Beer*, *Spirit* and *Wine* in the Jamaican context (when disaggregated revenue data are available by beverage type) and investigate the potential of **track and trace** mechanisms to curtail isolated availability of counterfeit alcoholic beverages locally, is worth exploring.

Are there any Questions?



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