

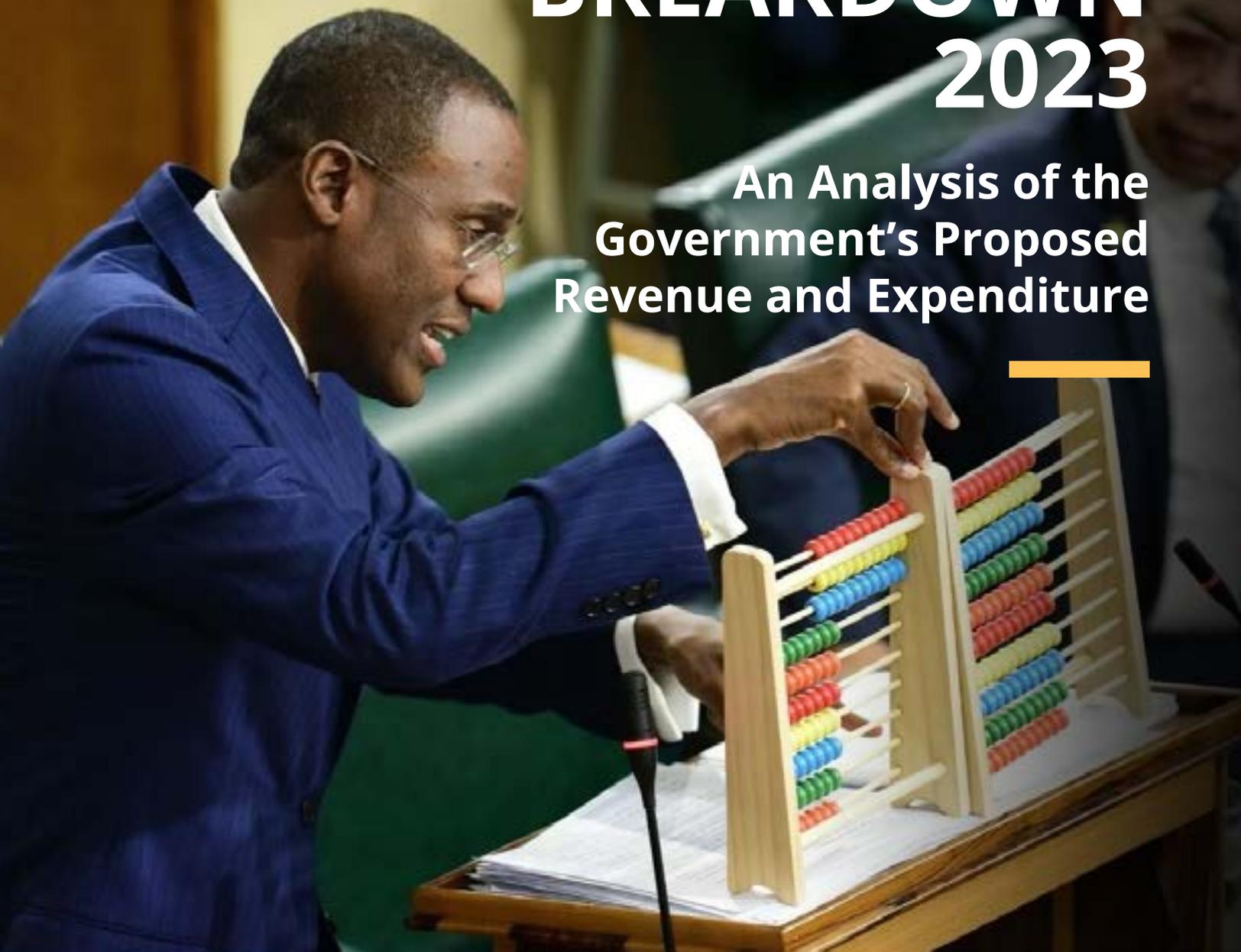


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BUDGET BREAKDOWN 2023

An Analysis of the
Government's Proposed
Revenue and Expenditure



Budget Breakdown 2023

An Analysis of the Government's Proposed Revenue and Expenditure

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Table of CONTENTS

Figures	iii
Acronyms	iii
Executive Summary	iv
1 Introduction	10
2 Credibility and Sustainability	12
3 Major Shifts	16
4 Sources of Taxation: International Comparisons	22
5 New Revenue Measures	28
6 Conclusion	30

Figures

Figure 1: Debt to GDP Ratio

Figure 2: Capital Expenditure (PPE\$b)

Figure 3: Revenue, Adjusted for Inflation (PPE\$b)

Figure 4: Share of Revenue by Source

Figure 5: Tax to GDP Ratio

Figure 6: Tax on Income and Profits as a Share of Total Revenue

Figure 7: Size of the Informal Sector (Percent of GDP)

Figure 8: Tax on International Trade as a Share of Total Revenue

Acronyms

GCT	General Consumption Tax
GDP	Gross Domestic Product
GOJ	Government of Jamaica
IMF	International Monetary Fund
LMIC	Lower Middle-Income Countries
MOFPS	Ministry of Finance and the Public Service
OECD	Organization for Economic Co-operation and Development
PAYE	Pay As You Earn
PIOJ	Planning Institute of Jamaica
PPED	Purchasing Power Equivalent Dollars
UMIC	Upper Middle-Income Countries
VAT	Value Added Tax



Executive Summary



Jamaica holds one of the highest tax to GDP ratios, at **28%**, out of 24 upper middle-income countries.

CAPRI's Budget Breakdown provides insight into Jamaica's national budget for fiscal year 2023. This budget is compared to the previous six budgets and the comparative analysis focuses on how revenue and expenditure have changed over time, as well as how Jamaica compares to peer countries in revenue collection.

The report finds that the government's macroeconomic projections, including growth of 1.6 percent and inflation of 5.2 percent, are credible given their alignment with those reported by independent organisations such as the Planning Institute of Jamaica (PIOJ), the International Monetary Fund (IMF), and the World Bank. The budget also gets its credibility from the institutional framework guiding fiscal and monetary policy, and the economic buffers to natural and economic shocks. Besides being credible, this budget is fiscally sustainable as it continues the trend of debt reduction, projecting debt to GDP to end the fiscal year at 74 percent, the lowest level in over two decades.

There are three shifts evident in the budget for the 2023 fiscal year. Firstly, capital expenditure grew 35 percent from the six-year low figure observed in the previous budget, with an additional allocation of J\$19 billion. Second, there is a 6.3 percent increase in total revenue projected for this fiscal year, continuing the trend of



rising government revenues. This revenue growth is expected to arise from a rise in income, international trade, and consumption tax receipts as the economy continues to grow. Finally, the share of total revenue coming from income taxes is projected to reach a seven-year high of 28 percent. This was driven by an increase in Pay-As-You-Earn (PAYE) receipts due to a decline in the value of the real income tax threshold from J\$1.5 to J\$1 million, and due to increased corporate income tax receipts because of increased profitability.

In terms of international comparisons, Jamaica holds one of the highest tax to GDP ratios out of 24 upper middle-income countries (UMIC) at 28 percent for the 2023 fiscal year. This is a positive indicator,

as this value is approaching the range typical for high income countries, which are generally more capable of collecting taxes. Jamaica also has the highest value for taxes on international trade as a share of total revenue out of 24 UMICs at 33 percent. By comparison, the sampled UMICs have an average of just 9 percent of revenue from taxes on international trade. Jamaica's relatively high taxes on international trade result in a smaller share of revenue from income taxes when compared to other countries. Taxes on income and profits as a share of total revenue is just 24 percent in Jamaica, ranking the country 16th out of 24 UMICs with an average of 30 percent.

Capital expenditure grew **35%** from the six-year low figure observed in the previous budget, with an additional allocation of **J\$19 billion** in 2023.

Recommendations

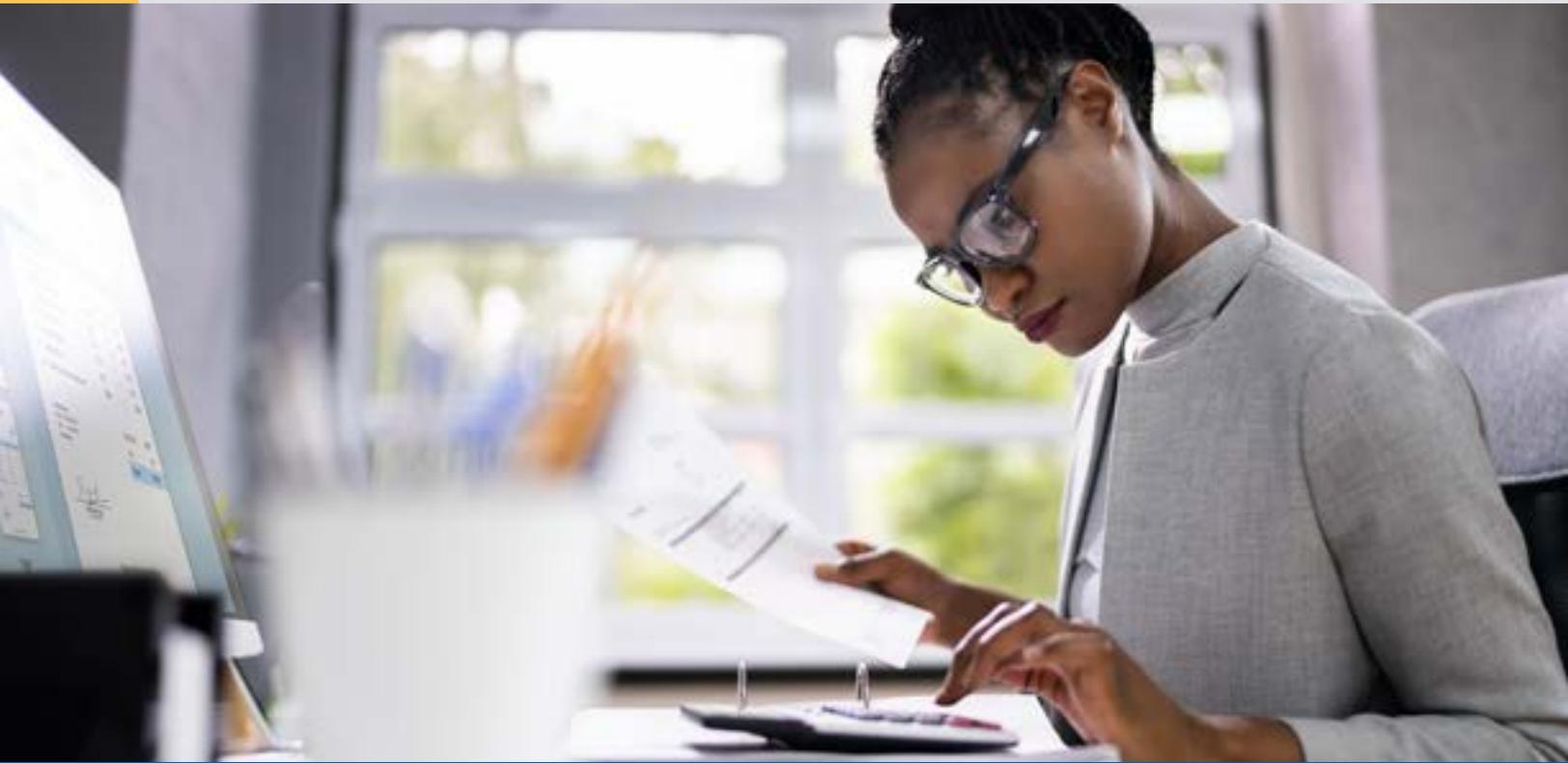
**1**

Increase the income tax threshold to J\$2.2 million (approximate to the 2017 threshold level adjusted for inflation).

Peg annual increases in the income tax threshold to that of the Consumer Price Index.

2





1

Introduction



CAPRI's Budget Breakdown is comprised of a comparison of the current budget with government expenditure and revenue for the last six years.

A national budget provides an account of the expenditure and revenue of a country's government for a fiscal year. In Jamaica, critical engagement with the budget is limited by the document's scale and complexity, and by the limitations of the existing popular approaches taken to disseminating and analysing it. Without the critical engagement of a well-informed public, it is arguably more likely that the budget will not reflect the will and needs of the people who are obliged to fund it, as it ought.

This report analyses Jamaica's national budget for the current fiscal year, April 2023 to March 2024. The report will assess the credibility and sustainability of the budget, review major shifts, compare Jamaica's revenues to that of peer upper middle-income countries, and highlight the budget's most impactful changes. The goal is to identify the meaningful trends in the current budget, clearly and accessibly, to better inform the public on how the government is managing their taxes, and providing for the country's growth, stability, and making opportunity available to all.

CAPRI's Budget Breakdown is a unique though not exhaustive look into the budget. The report is comprised of a comparison of the current budget with the six

The reported figures are in purchasing power equivalent (PPE) dollars and represent the amount of money in today's dollars that it would take to purchase what the original amount would have purchased in the year it was earned or expended.

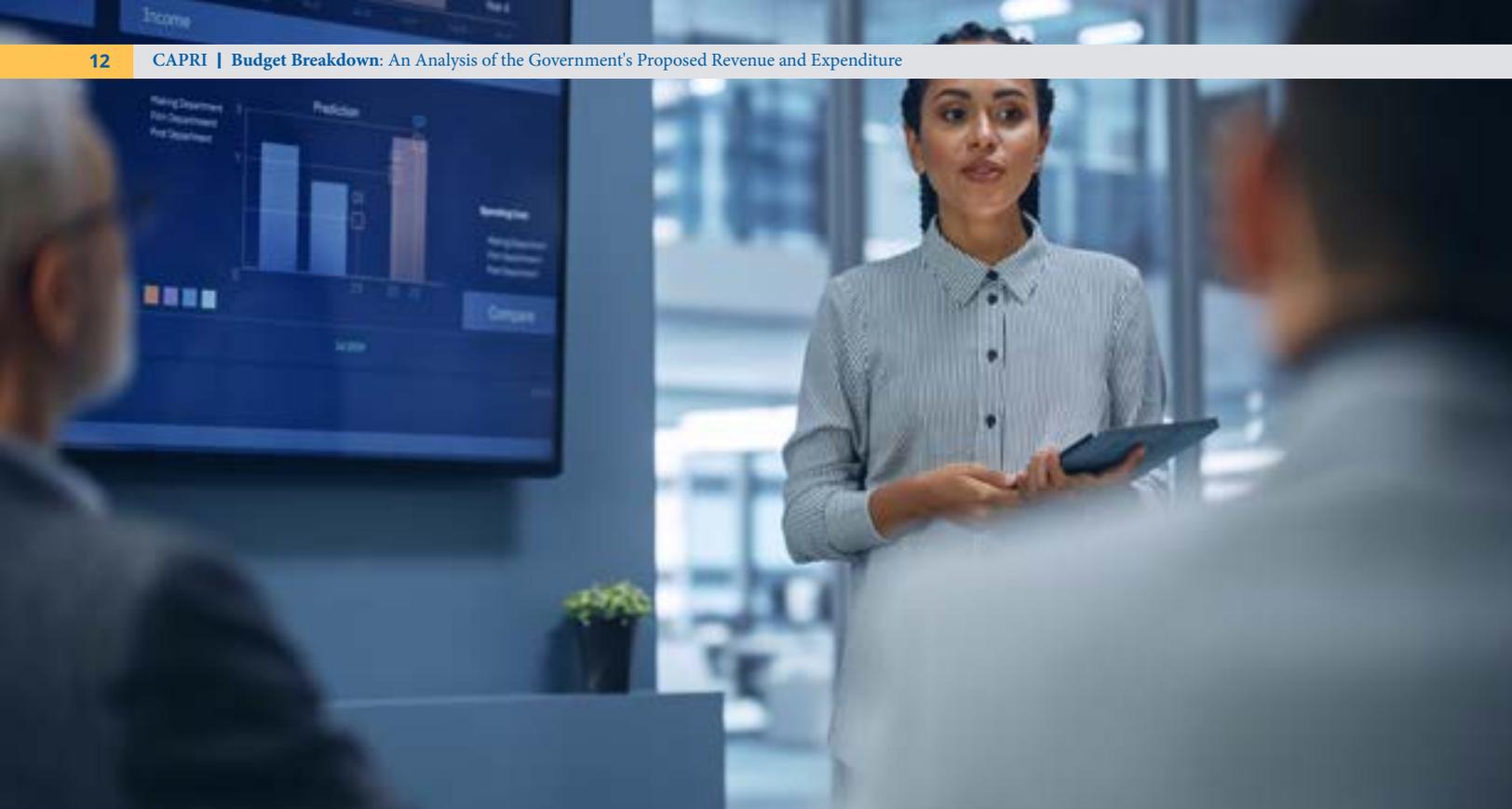
budgets prior. (The timeline was selected to account for the distortionary effects of the COVID-19 pandemic 2020-2022.) The analysis depends primarily upon examining specific categories of revenue (taxes on international trade, income, and consumption, as well as other sources) and of expenditure (capital and recurrent) and how they relate to each other.

There are two points to note in what follows. The first as it relates to inflation, and the second to debt repayments. Inflation renders the purchasing power of nominally equal amounts of money different from one year to another. To control for that, the dollar amounts are adjusted upwards from previous years to compensate for the loss of purchasing power from inflation in the intervening years. In other words, the amount of money in today's dollars is what it would take to purchase what the origi-

nal amount would have done in the year it was earned or expended. These adjusted figures are referred to as purchasing power equivalent (PPE) dollars. This is necessary because the analysis depends primarily upon examining the relative shares of the categories of revenue and of expenditure of the six budgets prior.

Similarly, so as to simplify the analysis of the budget with regard to the examination of total expenditure, amortisation (repayment of debt principal), and loan receipts are excluded from what is classified as "expenditure" and "revenue", respectively. This is done to avoid counting the same expenditure or revenue twice, once in the year of expenditure or receipt, and again in the year of financing or repayment. The next section outlines the credibility and sustainability of this year's budget.

Without the critical engagement of a well-informed public, it is arguably more likely that the budget will not reflect the will and needs of the people who are obliged to fund it.



2

Credibility and Sustainability



The 2023 budget is premised on economic growth of **1.6%**, inflation of **5.2%**, and a current account deficit of **3.5%** of GDP.

A credible budget is one where there is a strong likelihood that the expected revenue and proposed expenditure will materialise as projected. In the absence of credibility, it is not useful to assess revenue proposals, as they are unlikely to come to pass. Once the credibility of the budget has been established, assessing the implications of proposed expenditure beyond the given budget cycle provides insight into the potential long-term impact. The sustainability of the budget examines its long-term implications for revenue, expenditure, public indebtedness, and macroeconomic performance beyond the current budget period. This section examines these issues.

Credibility

Many of the categories of revenue and expenditure in the budget are contingent upon what unfolds in the economy during the year. Accordingly, the government's estimates in the budget are predicated on assumptions regarding GDP growth, inflation, and the current account balance. The 2023 budget is explicitly premised on economic growth of 1.6 percent, inflation of 5.2 percent, and a current account deficit (the difference between the value of exports and remittances on the one side and that of imports and other recurrent payments on the other) of 3.5 percent of

GDP.¹

One indicator of credibility is whether the expectations align with those of independent evaluators. The government's macroeconomic projections stated above are in line with those reported by other agencies. These projections align with those of the Planning Institute of Jamaica (PIOJ), which projects GDP growth of between 1 and 3 percent, driven by growth in the tourism, mining, and construction sectors.² The IMF and the World Bank, independent of each other, project growth at around 2 percent for 2023, and expect that inflation will re-enter the Bank of Jamaica's target range of 4-6 percent.³ There is thus a positive though cautious outlook that is aligned across multiple agencies. This is a good indicator that the projections represent a reasonable assumption by government planners, which supports the budget's credibility.

In addition to the projections of the PIOJ, IMF, and World Bank, several other factors augur well for macroeconomic projections to be realised. Firstly, the government's growth target of 1.6 percent is more conservative than the average estimate of independent agencies (which have also accounted for possible negative risks). Further, the expected return of the inflation rate to the target range is based on the continued prudence of Jamaica's

independent central bank, as well as its legal obligation, together with the lessons from the experience of the pandemic and the Russia-Ukraine conflict. Finally, the programmed current account balance is dependent on the aforementioned growth estimates, and accounts for possible negative risks, including a slowdown in tourism or remittance growth.

The Government of Jamaica has a record of meeting or surpassing revenue estimates in recent years, and that is likely to continue this year. Jamaica reported a fiscal surplus, meaning that it has collected more in revenue than it has spent, in four of the last six years, and only during the onset of the pandemic (2020) was the deficit larger than 1 percent. This balance resulted from the country's institutional fiscal framework which ordinarily requires a primary surplus (the fiscal surplus omitting interest payments) of 6.5 percent of GDP. To meet this target consistently, expenditure can be increased only when revenue collection improves. While the 6.3 percent increase in revenue projected by the government in the new fiscal year seems ambitious, given that economic growth is projected at only 1.6 percent, both the pace of economic recovery and continued improvements in compliance suggest it is plausible.

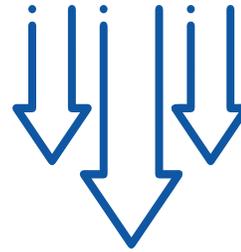
In Jamaica, as is usual for all countries,

Risks to achieving the fiscal projections include an increase in crime and a deterioration in financial market conditions which would raise the cost of borrowing and reduce private investments.

fiscal outcomes are subject to external and internal, economic, and natural disaster risks which could impact the economy. In Jamaica's case, externally, a worse-than-predicted slowdown in the global economy, which could slow tourism growth and reduce remittances, among other effects, is viewed as the most significant threat to economic growth.⁴ Risks to achieving the fiscal projections include an increase in crime and a deterioration in financial market conditions which would raise the cost of borrowing and reduce private investments.⁵ Additionally, Jamaica is approaching, effectively, full employment, and imminently faces a labour shortage, which could be a constraint on growth.⁶ With regard to natural disasters it is perhaps more difficult to predict: authoritative climate entities have forecast that the 2023 hurricane season will be about as active as average, while drought and flooding which have caused significant disruptions in the past, remain challenging to anticipate, in part due to climate change.⁷

Where economic resilience is critical to mitigating the effects of various shocks, it is notable that Jamaica's economic resilience has improved in recent years, though there is still vulnerability. The net international reserves are expected to be at US\$3.9 billion by the year's end, equivalent to five months of import cover (the IMF recommends at least three months for small countries with flexible exchange rates).⁸ Indeed, in 2021, Jamaica became the first small island state to independently purchase a catastrophe bond, which is currently valued at US\$315 million, providing insurance coverage for eligible storms up to December 2023.⁹ This is a critical step in building economic resilience against recurring natural disasters, as hurricanes frequently cause billions of dollars in damage. For example, Hurricane Ivan (2004) caused US\$350 million in damages.¹⁰ Lastly, Jamaica's debt to GDP ratio currently stands at approximately 80 percent, the lowest level in over two decades, which means that the government has room to borrow should the need arise. These facts support the proposition that resilience to external shocks is being built into fiscal management.

However, it remains unclear whether



Jamaica's debt to GDP ratio is expected to continue its downward trend and is programmed to be 74 percent at the end of this year, and 60 percent by the 2027 fiscal year.

similar protections at the national level are sufficient for risks that may emerge in the year which fail to qualify for catastrophe insurance coverage or which are otherwise uninsurable. In the former case, for instance, payout from the disaster bond is possible only if the natural hazard meets or exceeds a certain threshold (millimeters of rainfall, sustained wind speed, etc.) Furthermore, while Jamaica has access to the Resilience and Sustainability Fund of the IMF, this loan facility is concerned with investing in long term macro-economic resilience (including climate and pandemic risks), and not with natural disaster recovery.¹¹

With regard to crime, notwithstanding the very recent (since January 2023) downward trend in homicides and other major crimes, there is an ongoing citizen safety and security problem that jeopardizes business, and incurs costs on the state. There is no insurance or other contingency facility to respond to events such as flareups in violent crime hotspots that require increased resources to quell the violence. A state of emergency itself carries costs, and as a secondary effect can bring about a decrease in economic activity in the volatile areas. These and adjacent risks threaten the programmed execution of the government's budget because they are relatively difficult to plan for, and because they can have an outsized impact.

Notwithstanding these considerations, Jamaica's budget for the fiscal year 2023 is credible. The government's macroeco-

nomical projections are in line with those of other major agencies, and appear likely to be realised because of the prevailing economic conditions. Furthermore, the country's fiscal responsibility framework, along with the actions of its independent central bank, provide a guardrail against unrealistic revenue estimates and politically directed monetary policy. The country remains challenged by natural and economic risks which may be external or internal, but resilience has been built up against these risks, including insurance coverage for catastrophic storms, five months of import cover, and a decades-low level of debt. Nonetheless, more may be needed to address incremental problems such as non-catastrophic weather events and crime.

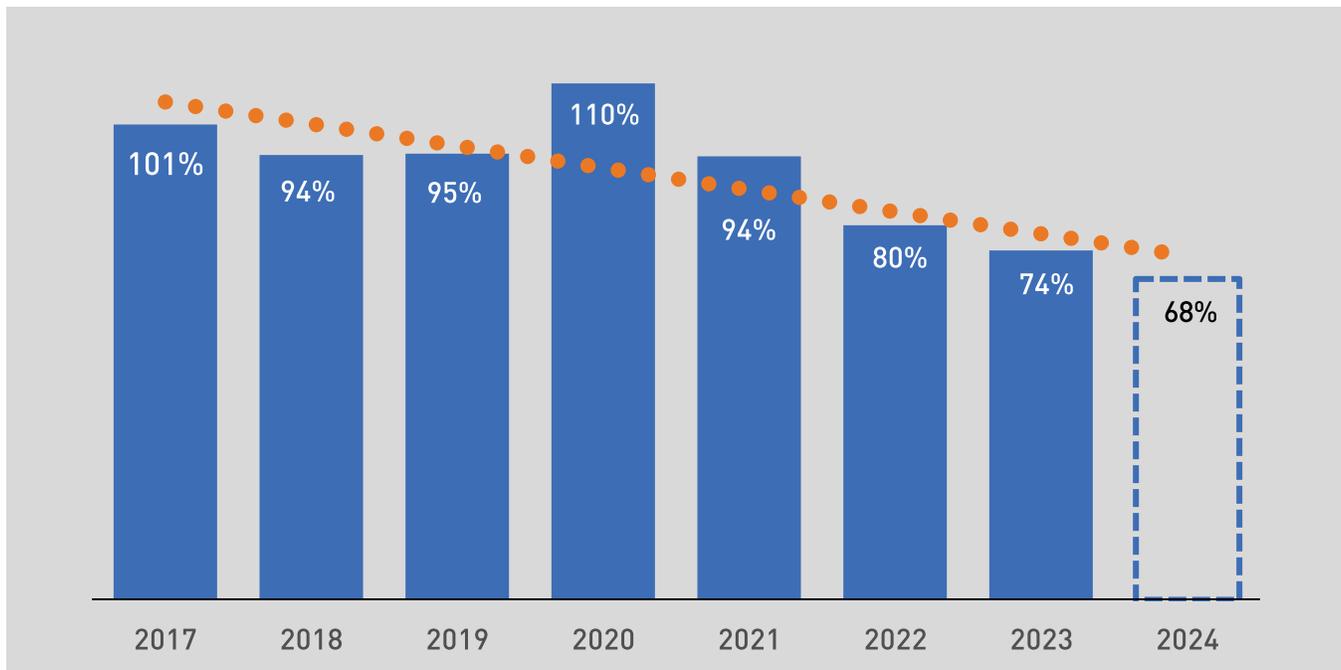
Sustainability

Besides being credible, a budget should also be consistent with sustainable fiscal and economic trajectories. Assessing sustainability requires a look both at the amounts being spent or earned from specific sources, and at how these amounts change over time. Of specific concern is the level of recurrent expenditure, and, particularly, debt servicing costs. The higher the proportion of government revenue going towards debt repayment, the fewer resources there are available to fund recurrent expenditure in education, health care, and public services. It also hampers the ability of government to invest in infrastructure which is necessary for fomenting and sustaining economic growth.

Jamaica's debt is expected to continue on a downward trend in this year's budget.



Debt to GDP Ratio



Source: Ministry of Finance and the Public Service, 2023.

Jamaica has maintained a sustainable fiscal position with the core objective of debt reduction over the past decade. Several studies of economies in various stages of development have shown that when the debt to GDP ratio exceeds 60 percent, economic growth is negatively impacted.¹² Jamaica's debt to GDP ratio is expected to continue its downward trend and is programmed to be 74 percent at the end of

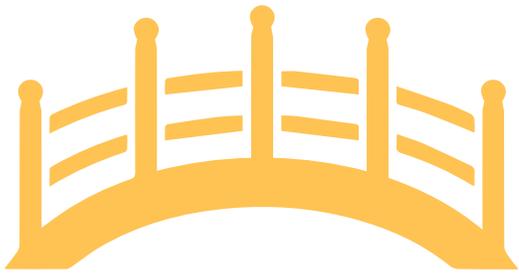
this year, and 60 percent by the 2027 fiscal year (Figure 1).¹³ As a result of the declining debt stock, interest payments as a share of expenditure have trended downwards from the three-year pre-pandemic average of 21 percent to 17 percent for 2023. For comparison, the upper-middle income country (UMIC) average is 8.4 percent, implying that Jamaica's burden is still quite high. But the fact that this budget contin-

ues the trend of gradual debt reduction and does not require any significant additional taxes to do so, implies that this budget is fiscally sustainable.

When entrepreneurs lack sufficient financial resources to invest in necessary capital, the growth of their businesses is restrained.



3 Major Shifts



Capital Expenditure

refers to spending on fixed assets such as public buildings, transportation networks, and equipment that may be used for multiple years.

There are three shifts evident in the budget for the 2023 fiscal year. Firstly, the trend of growing capital expenditure, part of the dividend of declining debt, which had been reversed by the pandemic, will resume this fiscal year. Second, there is a 6.3 percent increase in revenue projected for this year, continuing the trend of rising government revenues. Thirdly, there is a shift underway in the source of tax revenue, with the share of revenue coming from taxes on income rising versus that from indirect sources, such as GCT and import duties. The following section examines these shifts.

Capital Expenditure

Capital expenditure refers to spending on fixed assets such as public buildings, transportation networks, and equipment that may be used for multiple years. This stands in contrast to recurrent expenditure which is expenditure on goods and services which are consumed within the fiscal year, such as wages and utility costs. As the share of expenditure on debt gradually fell as Jamaica paid down its debt, more revenue became available to dedicate to growth-promoting capital expenditure, which had increased to a peak of PPE\$97 billion in 2018.¹⁴ However, as GDP and government revenues plummeted during the pandemic while the demand for so-

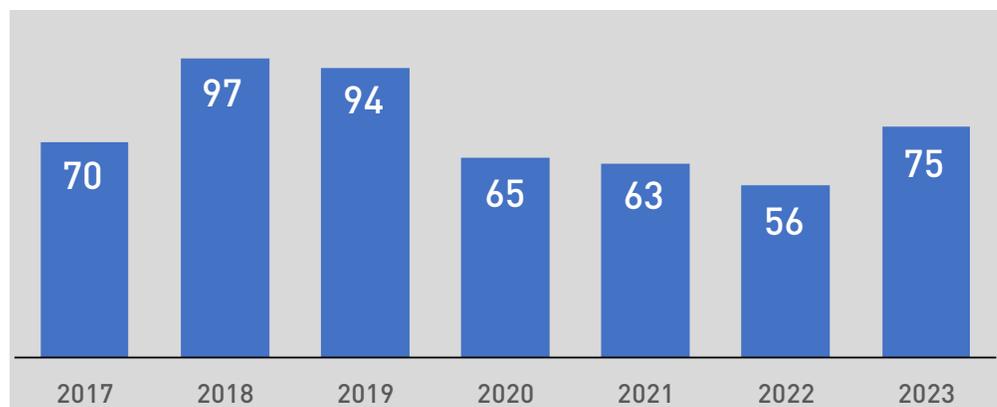
cial services soared, there was a necessary diversion of resources away from capital expenditure as an alternative to additional borrowing.

The 2023 budget resumes the pre-pandemic trend of rising capital expenditure, which grew from the six-year low of PPE\$56 billion in 2022 to J\$75 billion this fiscal year (Figure 2). This figure is significant since it indicates that there is a gradual trend to invest more in the national capital stock, even while the government has taken on increased recurrent expenditure associated with the public sector wage restructuring process.

Capital expenditure has continued to recover from the downturn caused by the COVID-19 pandemic.



Capital Expenditure (PPE\$b)



Source: Ministry of Finance and the Public Service, various years.

As GDP and government revenues plummeted during the pandemic while the demand for social services soared, there was a necessary diversion of resources away from capital expenditure as an alternative to additional borrowing.

Total Revenue

Government revenue (which excludes loans) is expected to be higher in this fiscal year than at any other point during the last six years. Between 2022 and 2023, government revenue is programmed to

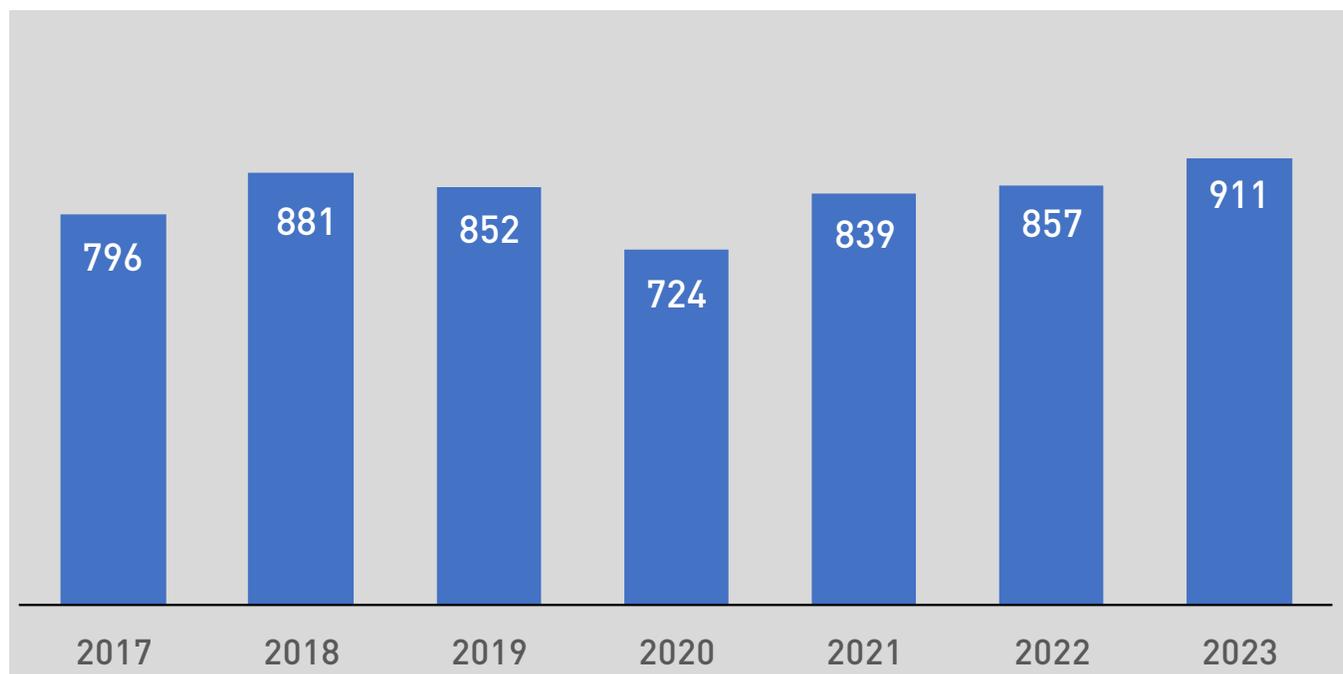
grow by 6.3 percent, from PPE\$857 billion to J\$911 billion (Figure 3). Recall that this represents real revenue growth since the data presented here is adjusted for inflation. The revenue growth has occurred despite no new taxes being levied. The growth in revenue has likely come

from an increase in compliance with existing taxes and because of the expansion of formal employment and the economy, which has effectively enlarged the tax base.

Government revenue is programmed to reach a seven-year peak in the Fiscal Year 2023.



Revenue, Adjusted for Inflation (PPE\$b)



Source: Ministry of Finance and the Public Service, various years.

Income Tax Revenue

The real value of the income tax threshold has fallen by 31 percent since 2017. The income tax threshold was last increased in April 2017, when it was set at J\$1.5 million. The threshold has not been adjusted upwards to account for inflation since that time. Therefore, as wages adjusted to match inflation, the real value of the threshold has fallen because the nominal threshold was not adjusted to reflect the lower purchasing power of J\$1.5 million. As a result, an income in this fiscal year of J\$1.5 million is equivalent to the purchasing power of only roughly J\$1 million six

years ago. The decline in the real threshold between this and last year alone is estimated at J\$70,000. This reduction of the real income tax threshold contributed to the \$115 billion increase in income tax revenue since 2017, and will continue to do so as more employees enter (higher) taxable income brackets even without their real incomes increasing. This is, effectively, an increase in the rate of income tax.

Corporate income tax receipts have risen alongside PAYE tax receipts.¹⁵ The Ministry of Finance has attributed this growth to increased profitability of companies,

which is supported by some evidence. Pre-tax income of companies listed on the Jamaica Stock Exchange climbed from PPE\$486 to PPE\$867 billion dollars between 2017 and 2021, leading to an increase in taxes paid to government from PPE\$168 to PPE\$285 billion.¹⁶ While the data for 2022 are not yet available, the economic recovery currently underway is indicative of an increasingly lucrative business environment that is likely to yield even higher government revenues.



The image shows the exterior of the Jamaica Stock Exchange building. The building is a two-story structure with a light-colored facade and a decorative, scalloped roofline. The words "THE JAMAICA STOCK EXCHANGE" are prominently displayed in dark letters across the upper part of the facade. Below the name, there is a small, stylized logo. The building features several windows with striped awnings. In the foreground, a tall palm tree stands on the left, and a green metal fence runs across the bottom. The overall scene is set against a clear sky with some palm fronds visible in the upper right corner.

THE JAMAICA STOCK EXCHANGE

Pre-tax income of companies listed on the Jamaica Stock Exchange climbed from PPE **\$486** to PPE **\$867 billion** between 2017 and 2021, leading to an increase in taxes paid to government from PPE **\$168** to PPE **\$285 billion**

Income Tax Share of Total Revenue

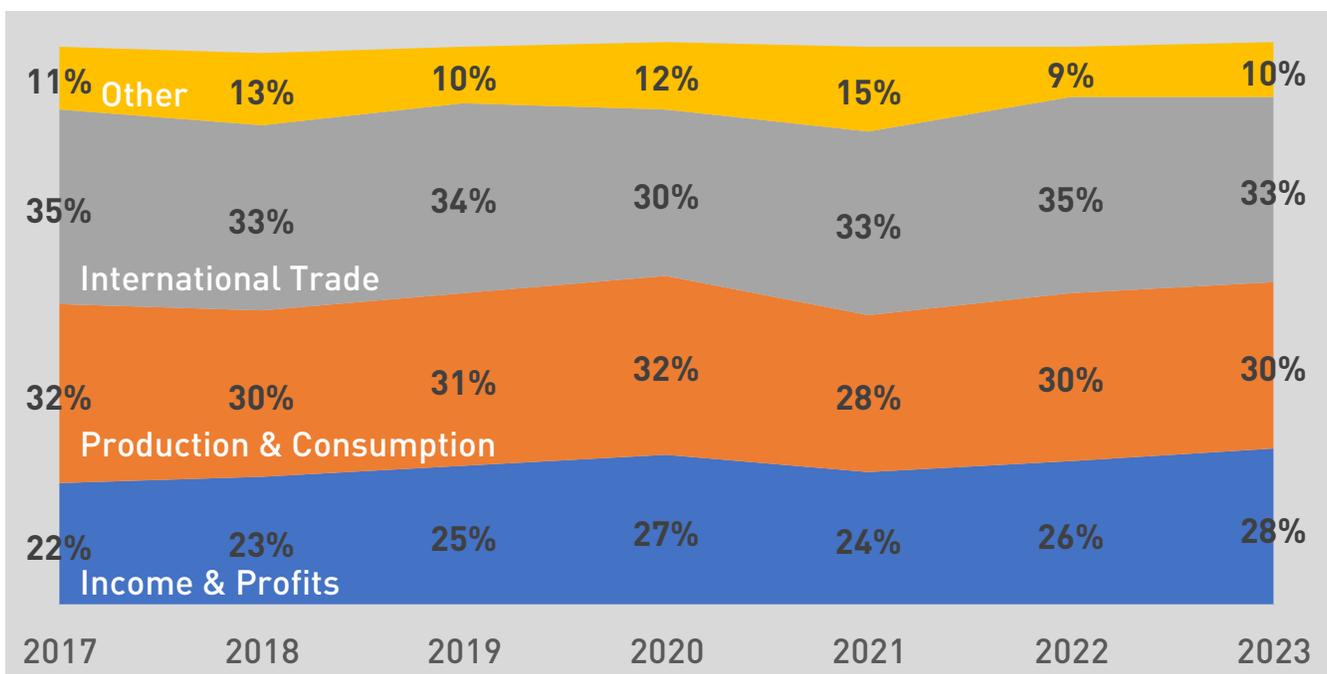
The growth in personal and corporate income tax receipts has contributed to a rise in the share of income tax in total revenue to 28 percent in this fiscal year. This is two percentage points higher than

the last fiscal year, and results from a 12 percent growth in projected income tax receipts between fiscal year 2022 and this one. This year's growth in the share of revenue from income taxes is part of a wider trend which was temporarily reversed during the pandemic. Income tax revenue share grew from 22 percent to 27 percent between 2017 and 2020, before falling to

24 percent in the following year and then recovering to its current level of 28 percent (Figure 4).

The share of revenue from personal and corporate income taxes continues to rise.

4 Share of Revenue by Source



Source: Ministry of Finance and the Public Service, various years..

We have noted several major shifts in this year's budget. Capital expenditure began a positive recovery in this budget following the six-year low figure observed in the previous budget. Meanwhile, the highest level of government revenue of the last six years is expected to be reached in this fiscal year. Accounting for this increase was the 12 percent growth in income tax-

es, which resulted from a depreciation (a fall in the real value) of the J\$1.5 million income tax threshold, and from a rise in corporate profits. Furthermore, the share of total revenue from income taxes grew to 28 percent, driven by an increase in PAYE and corporate income tax receipts. These represent the major shifts in this year's budget. The following section will

compare Jamaica to peer countries in the sources of revenue, to lend a broader perspective to evaluating Jamaica's performance.



4 International Comparisons



The share that each source of tax contributes to revenue varies based on a country's specifics, given factors such as the level of informality, the size of the economy, and the share of trade to total GDP.

The ability to collect revenue from taxes is fundamental to the effectiveness of any government since it determines their ability to finance expenditure on and investments in human capital, infrastructure, and the provision of services for citizens and businesses. It is also a reflection of the competence and capacity of the government since effective tax policy requires being able to identify where value lies in the economy and then to avoid disincentivising it too much.

A closer look at the sources of taxation, in comparison to other countries, gives a perspective on how “well” a country is doing in revenue collection from taxes. Tax collection efficacy varies widely across countries depending on the structure of their economies and the design and use of their tax system, including the capacity of the tax administration.¹⁷ As such, international comparisons must be contextualized and interpreted carefully.

To compare like to like, countries in the same income bracket as Jamaica, upper-middle income countries (UMICs), will be considered. The comparison will take place across three areas: tax to GDP ratio, taxes on income and profits as a share of total revenue, and taxes on international trade as a share of total revenue.¹⁸ Along with taxes on goods and services, the latter two areas represent major sources



of revenue for most countries. The share that each source contributes to revenue varies based on a country's specifics, given factors such as the level of informality, the size of the economy, and the share of trade to total GDP.

Tax to GDP Ratio

The tax to GDP ratio represents the share of the value of a country's total production that is collected by the government through taxes. It is calculated by dividing the period's tax revenue by the GDP. It can be regarded as one measure of the degree

to which the government controls the economy's resources.¹⁹

A tax to GDP ratio of at least 15 percent is considered a tipping point in making a state economically viable, as it is the minimum level required for sustainable commerce. Getting to the level of at least 15 percent helps countries generate the bare minimum of domestic resources to cover some provision for health, education, and infrastructure.²⁰ Countries collecting less than that share of GDP must increase their revenue collection to meet the basic needs of citizens and businesses.²¹

The ability to collect revenue from taxes is fundamental to the effectiveness of any government since it determines their ability to finance expenditure on and investments in human capital, infrastructure, and the provision of services for citizens and businesses.

Tax revenues in lower- and middle-income countries tend to represent a smaller share of GDP than in higher income countries.²² Tax to GDP ratios are only 15 to 20 percent in lower- and middle-income countries, but over 30 percent in high-income countries. Closing this gap can be difficult. This is because the gap is caused less by a choice of low tax rates and more by challenges associated with tax collection in developing countries, such as high levels of informality and misreporting.²³

Jamaica is exceeding the minimum requirement for sustaining the country's affairs, with a tax to GDP ratio of 26 per-

cent, 1.7 times the 15 percent threshold. Further, Jamaica had the second highest tax to GDP ratio among 24 upper-middle income countries in 2021, exceeding the sampled average of 17 percent (see Figure 5).²⁴ In 2023, this value increased to 28 percent, closer to the range typical for high income countries, which are generally capable of collecting more taxes.

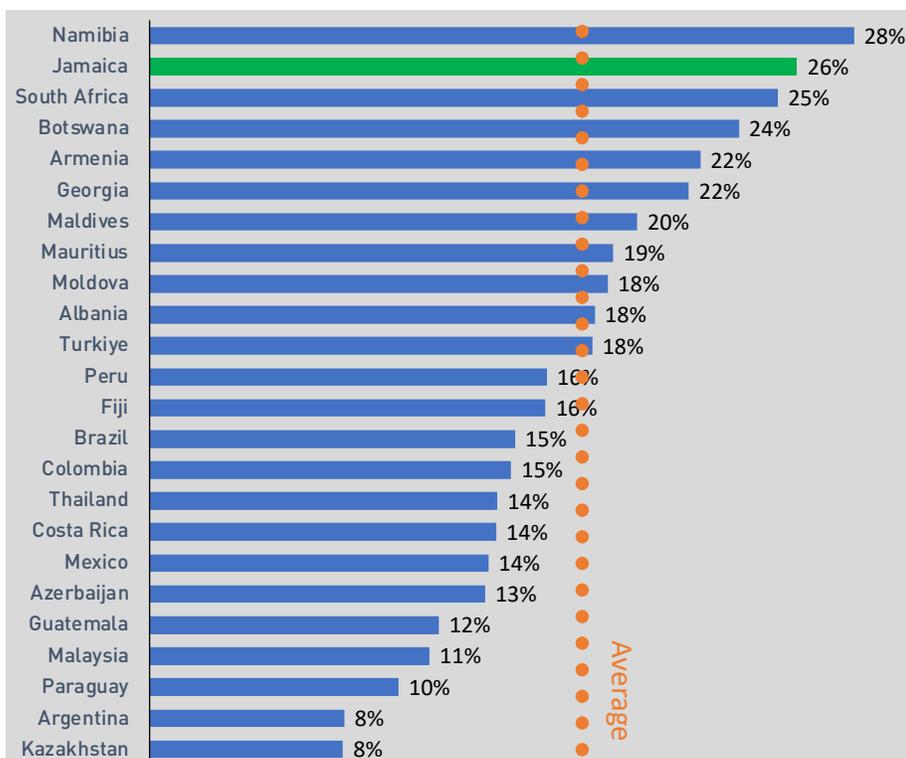
That Jamaica's tax to GDP ratio is higher than most peer countries may be a function of the country's history with relatively high debt (above 100 percent of GDP for most of the last 30 years). High debt levels, and therefore interest payments, require an efficient revenue

collection system in order to pay down debt and meet ordinary expenditure. In theory, this could have forced reforms in Jamaica that are uncommon in other UMICs, resulting in a more efficient tax system, and higher revenues. It could also have led authorities to levy more taxes to meet revenue targets. As Jamaica reduces its debt burden, and less revenue is needed to service the debt, the government might consider reducing the country's tax burden by limiting or reversing real revenue growth, particularly where that might reduce distortions, and thereby spur growth.

Jamaica has the second highest level of tax collection amongst upper-middle income countries.



Tax to GDP Ratio



Source: International Monetary Fund (IMF) Data: Access to Macroeconomic & Financial Data, Government Finance Statistics, 2021.

Taxes on Income and Profits

As mentioned before, tax revenue consists of taxes levied on income and profits, production and consumption, international trade, and other sources such as li-

censes and property taxes (Figure 3). The amount of revenue collected from taxes on income and profits is determined by the overall composition of tax revenue in a country, particularly the proportion of the other tax categories (production

and consumption, international trade, and other). If a country has a small proportion of revenue coming from one tax category, it means that another tax category is contributing more. Therefore, a small amount of revenue collected from

taxes on income and profits indicates that a higher share of revenue is coming from another tax category.

The amount of revenue collected from taxes on income and profits is also correlated with the level of informality in a country. An economy with a large informal economy is associated with lower levels of tax collection, which is brought about not only by lower tax compliance per person, but also by a smaller tax base.²⁵ The tax base is smaller because informal workers and businesses do not pay income tax in the same way as formal ones, and for workers, most would fall below the thresholds their countries set for paying income tax.²⁶

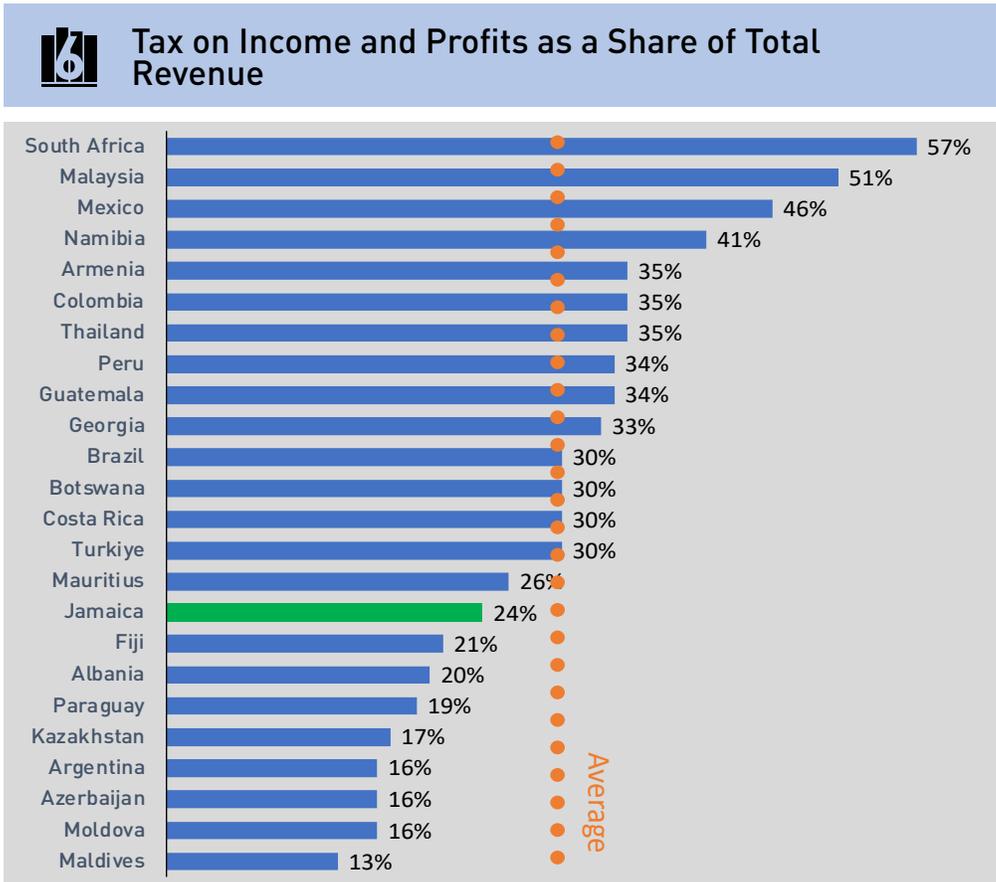
Taxes on income and profits were 24 percent of total revenue in Jamaica in 2021, which was below the sampled average for UMICs of 30 percent (see Figure 6).²⁷ In 2023, the shift towards a greater share of revenue from income taxes, which was

noted above, has increased the value to 28 percent of revenue, however the value is still below the sampled average. Compared to other countries, this value may appear to be smaller because Jamaica has a relatively high share of taxes coming from international trade (over three times the sampled UMIC average), as will be discussed later. This would be consistent with the high tax to GDP ratio for Jamaica discussed earlier. Another consideration is Jamaica's large informal sector, which represents a third of its GDP. This high level of informality could be contributing to the smaller amount of revenue being collected from income taxes, relative to other sources of revenue.²⁸

There is often an inverse relationship between the size of a country's informal sector and the share of revenue generated from income taxes. A country with a larger share of informality has a smaller share of revenue from income taxes. South Africa and Malaysia have the highest values for

taxes on income and profits as a share of total revenue at 57 percent and 51 percent respectively (Figure 6). The size of their respective informal sectors represents 29 percent and 25 percent, below the UMIC average of 34 percent (Figure 7). On the other hand, Moldova, and Azerbaijan both have a much lower value for taxes on income and profits at 16 percent, while the size of their respective informal sectors is 41 percent and 37 percent respectively, above the UMIC average (Figures 6 and 7). This inverse relationship may not apply to all countries because there may be other factors, besides the level of informality, that are influencing the level of revenue collected from income taxes. These other factors may include the structure of a country's economy, the design and use of the tax system, and the capacity of the tax administration.

Jamaica taxes on income and profits as a share of total revenue is 24 percent, ranking 16th out of 24 Upper Middle Income Countries

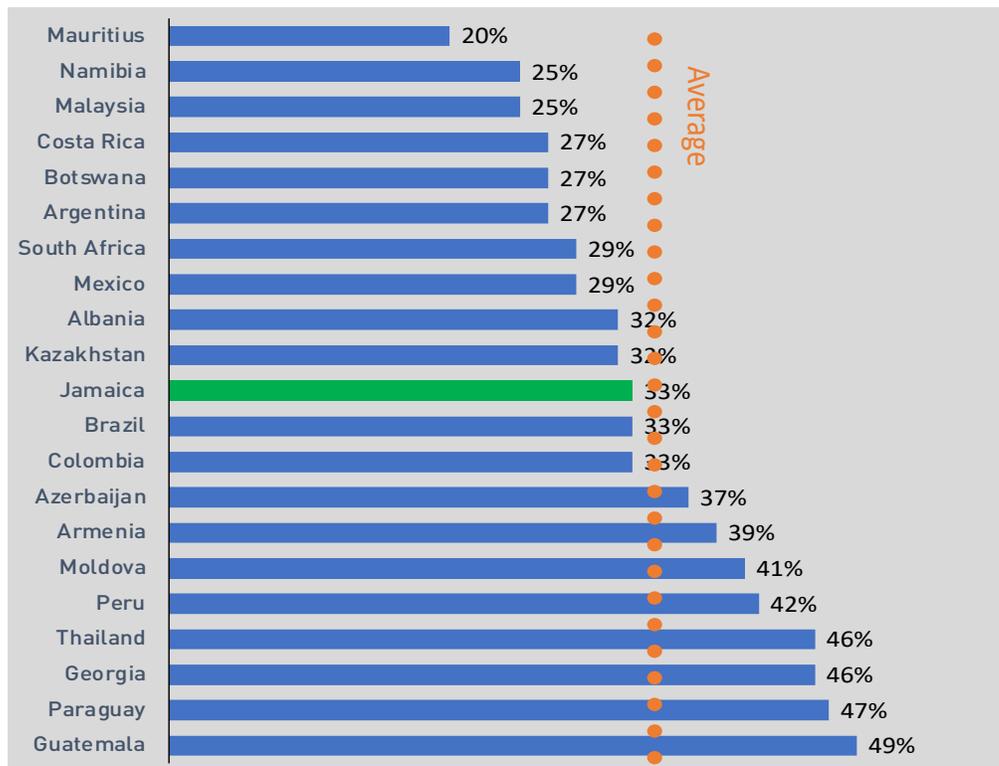


Source: International Monetary Fund (IMF) Data: Access to Macroeconomic & Financial Data, Government Finance Statistics, 2021.

Jamaica's informal sector is close to the average for comparable countries.



Size of the Informal Sector (Percent of GDP)²⁹



Source: World Economics, 2022.

Taxes on International Trade

Taxes on international trade include import duties, export duties, profits of export or import monopolies, exchange profits, and exchange taxes.³⁰ At 33 percent, Jamaica maintains the highest value for taxes on international trade as a share of total revenue among 24 UMICs in 2021, exceeding the sampled average of 9 percent (Figure 8).³¹ This means that one third of Jamaica's total revenue is derived from taxes on international trade, exceeding the share in sampled peer countries. Further, looking at the budget for the 2023 fiscal year, Jamaica still has the highest value at 33 percent (Figure 3).

It is generally the case that international trade plays a smaller role in large economies than they do in small economies. Large economies have large domestic markets that enable firms to specialize and produce in volume to attain an optimal scale. Consequently, they are not

heavily dependent on international trade. They tend to generate less revenue from taxes on international trade, since they tend to have lower trade to GDP ratios regardless of their trade policies.³² Brazil is the tenth largest economy in the world, and the largest in Latin America.³³ Its trade to GDP ratio is 39 percent, and the revenue generated from taxes on international trade is low at 3 percent.³⁴

On the other hand, small economies rely more heavily on international trade. They are more open to trade, and tend to have higher shares of taxes coming from trade than larger economies with similar policies, since they tend to have higher trade ratios.³⁵ Jamaica is a small economy and its trade to GDP ratio is 73 percent, indicating that Jamaica is open to trade and as such, the revenue generated from taxes on international trade is high at 33 percent (Figure 8).³⁶ Further, the strongest performance within the international trade category came from travel tax be-

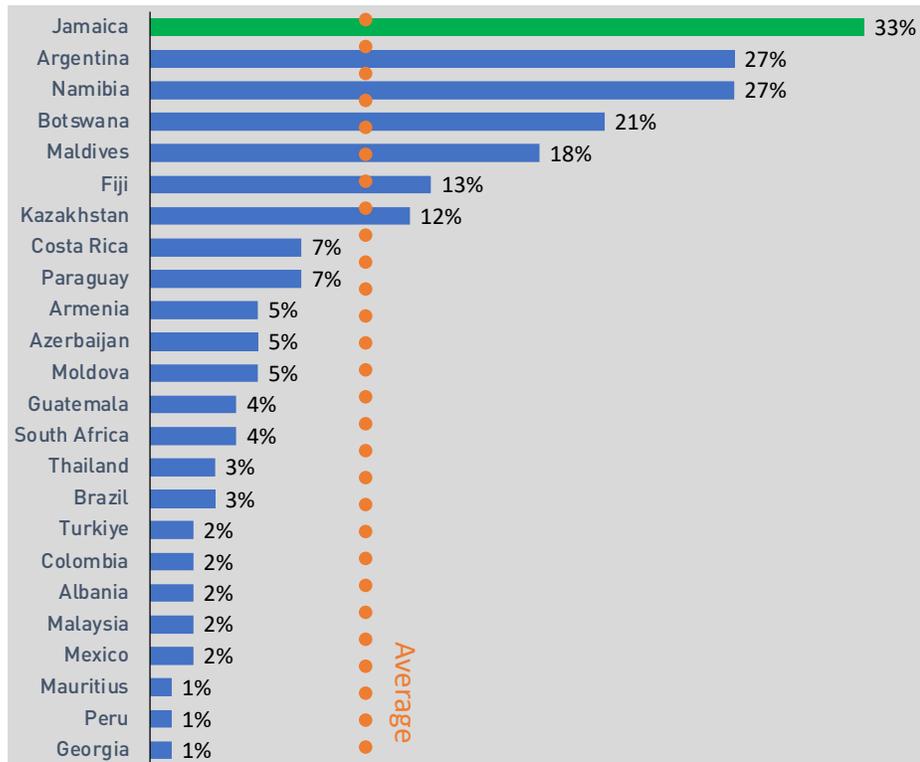
cause of higher than projected visitor arrivals, thereby reflecting the recovery of the tourism sector.³⁷

Besides the size of a country's economy, other factors may explain the differences in the share of taxes on international trade as a share of total revenue across countries. These may include the size of a country's informal sector, geographic remoteness from potential trading partners, history, culture, structure of a country's economy (in particular the weight of non-tradable services), and a country's trade policy and international trade stance.³⁸

Jamaica has the highest value for taxes on international trade as a share of total revenue amongst comparable countries.

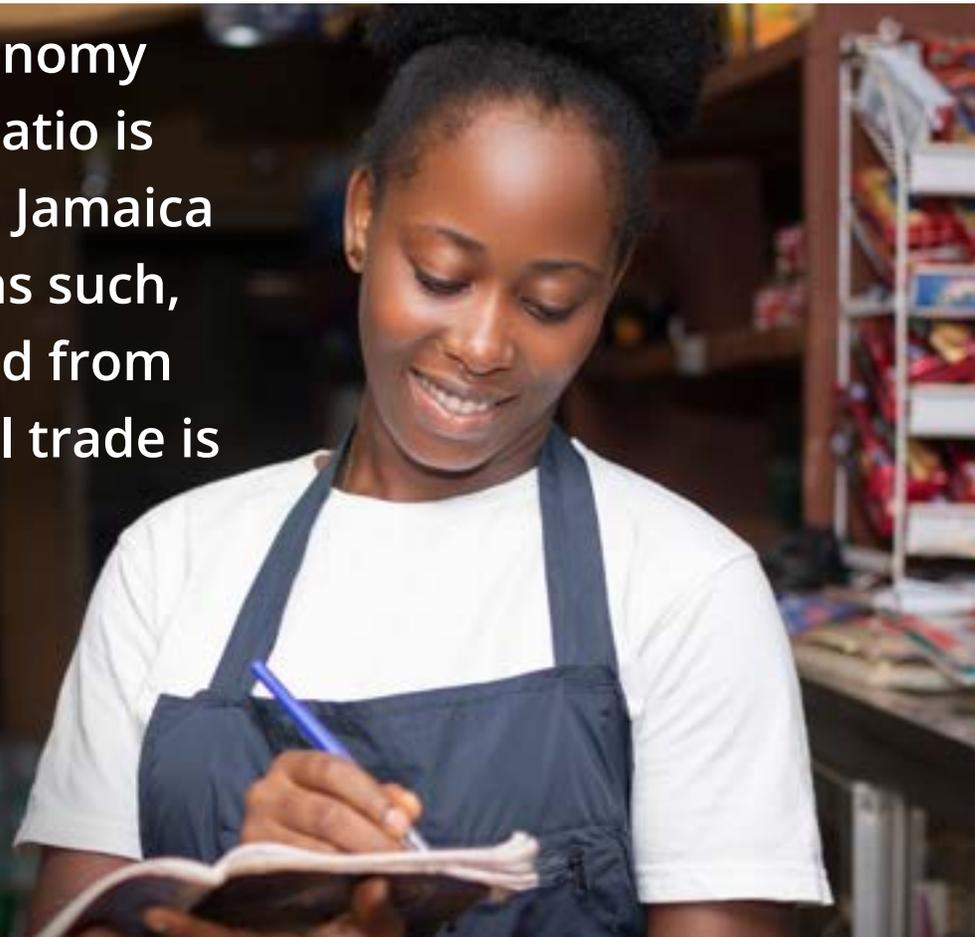


Tax on International Trade as a Share of Total Rev-



Source: International Monetary Fund (IMF) Data: Access to Macroeconomic & Financial Data, Government Finance Statistics, 2021.

Jamaica is a small economy and its trade to GDP ratio is **73%**, indicating that Jamaica is open to trade and as such, the revenue generated from taxes on international trade is high at **33%**.





5

New Revenue Measures



There is the implementation of the standard rate of **GCT** on the second sale of motor vehicles by registered car dealers.

Having set out that the budget is credible and sustainable, looked at what are the trends in expenditure, examined the effectiveness of how the government finances the budget, and how Jamaica compares to peer countries in terms of revenue collection, there are specific items in the budget that are worth exploring in more depth. These specific items are new revenue measures to be implemented during the 2023 fiscal year, and each has implications for Jamaican citizens, and people doing business in Jamaica.

Firstly, there is an income tax credit on the installation of residential solar photovoltaic systems, which are systems capable of generating electricity using sunlight. The government of Jamaica (GOJ) will provide a 30 percent income tax credit (up to a maximum of J\$4 million) to employed and self-employed taxpayers for the purchase of a residential solar photovoltaic system.³⁹ This measure is aimed at reducing carbon dioxide emissions, diversifying local energy supply, and reducing demand for crude oil.⁴⁰ It should also have the benefit of lowering individual consumers' electricity bills.

Secondly, there is the implementation of the standard rate of General Consumption Tax (GCT) on the second sale of motor vehicles by registered car dealers. Individual motor vehicle owners will continue to

pay a flat rate GCT of J\$12,000 to J\$18,000. However, registered motor vehicle dealers, who are selling second-hand motor vehicles, would pay a rate of 15 percent of the dealer dollar margin (and not of the sale price) but no less than the amount to be paid on individual sales. This measure is aimed at bringing Jamaica's GCT regime more in line with established international VAT treatment of the sale of second-hand vehicles, as well as providing more options for such sales, building out the market for second sale motor vehicles, and providing greater visibility of the transactions to Tax Administration Jamaica (TAJ).⁴¹ Additionally, citizens who wish to buy or sell a vehicle will benefit from an expanded and more competitive second-hand market, with lower information asymmetries.

Lastly, there is the elimination of General

Consumption Tax on the importation of "live horses, small ruminants, and pigs." This measure is aimed at boosting the horse racing and local agricultural industries which will benefit from a larger and more diverse supply of animals, which should improve the quality of their stock.⁴² The government estimates the loss from this measure to be just J\$53 million, which is marginal compared to the expected benefit from a larger supply of animals being used in productive activities.⁴³

There is the elimination of GCT on the importation of live horses, small ruminants, and pigs.

There is an income tax credit on the installation of residential solar panels.



6 Conclusion



The **budget** for the 2023 fiscal year can be said to be credible because the government's macroeconomic projections are in line with those reported by independent organisations such as the **IMF** and the **World Bank**.

The budget for the 2023 fiscal year can be said to be credible because the government's macroeconomic projections are in line with those reported by independent organisations such as the IMF and the World Bank. Besides being credible, this budget is fiscally sustainable as it continues the trend of gradual debt reduction and does not pursue spending that would require a substantial increase in taxes in the future.

There are three shifts evident in the budget for the 2023 fiscal year. Firstly, there is a 6.3 percent increase in total revenue projected for this fiscal year, continuing the trend of rising government revenues. Secondly, the share of total revenue coming from income taxes continues to rise, driven by an increase in PAYE and corporate income tax receipts. Finally, capital expenditure began a recovery in this fiscal year's budget following the six-year low figure observed in the previous budget.

Each country's revenue outcomes are shaped by their respective tax system and tax administration, as well as the size of its informal sector. Jamaica holds one of the highest tax to GDP ratios out of 24 UMICs at 28 percent for the 2023 fiscal year, putting it closer to that of high-income countries in terms of revenue collection. Moreover, Jamaica maintains the highest value for taxes on international trade as a share of total revenue out of 24 UMICs



at 33 percent in 2023. By comparison, the sampled UMICs had an average of just 9 percent of revenue from taxes on international trade. Jamaica's relatively high taxes on international trade results in a smaller share of revenue from income taxes when compared to other countries.

In 2021, taxes on income and profits as a share of total revenue was an average of 30 percent for sampled UMICs, and only 24 percent in Jamaica. This has grown to 28 percent in 2023, but it is still lower than that of the majority of UMICs. This may be a consequence of Jamaica's comparatively high share of revenue being derived from

taxes on international trade, which is three times greater than the sampled average of 24 UMICs. These points indicate a need for Jamaican authorities to reassess how taxes are levied, and whether the tax burden may be redistributed to achieve more equity.

Jamaica holds one of the highest tax to GDP ratios out of 24 UMICs at 28 percent for the 2023 fiscal year, putting it closer to that of high-income countries in terms of revenue collection.

Recommendations

Labour Market Competition

**1**

Increase the income tax threshold to J\$2.2 million (approximate to the 2017 threshold level adjusted for inflation). The high level of informal economic activity in Jamaica means that some people with the same income, and thus the same tax liabilities, pay different amounts in taxes because those who earn a part or all of their income in the informal sector are able to conceal their true earnings. Increasing the income tax threshold would reduce the tax burden on all earners and open the avenue for levying alternative forms of taxation that are more difficult to evade.

Peg annual increases in the income tax threshold to that of the Consumer Price Index. This will ensure that as nominal wages are adjusted upward to match inflation, employees who were previously below the threshold do not experience a decline in their real, disposable income.

2



Endnotes

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- ¹⁴ Purchasing power equivalent (PPE) dollars refers to the previous year’s amount in today’s equivalent. This is determined by adjusting the previous value upwards to compensate for the loss in purchasing power due to inflation in the intervening time.
- ¹⁵ Pay-As-You-Earn (PAYE) income taxes are paid by employees at a rate of 25 percent for marginal earnings over J\$1.5 million and below J\$6 million, above which a rate of 30 percent is paid. PAYE is deducted by the employer or paid by self-employed persons.
- ¹⁶ The values for government tax income refer to all taxes remitted by the company to the government, and not just to income taxes; “Annual Report 2021,” Jamaica Stock Exchange, n.d., <https://online.fliphtml5.com/bcdqs/yxks/#p=174>.
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³⁰ IMF, *Government Finance Statistics Yearbook*, and data files.

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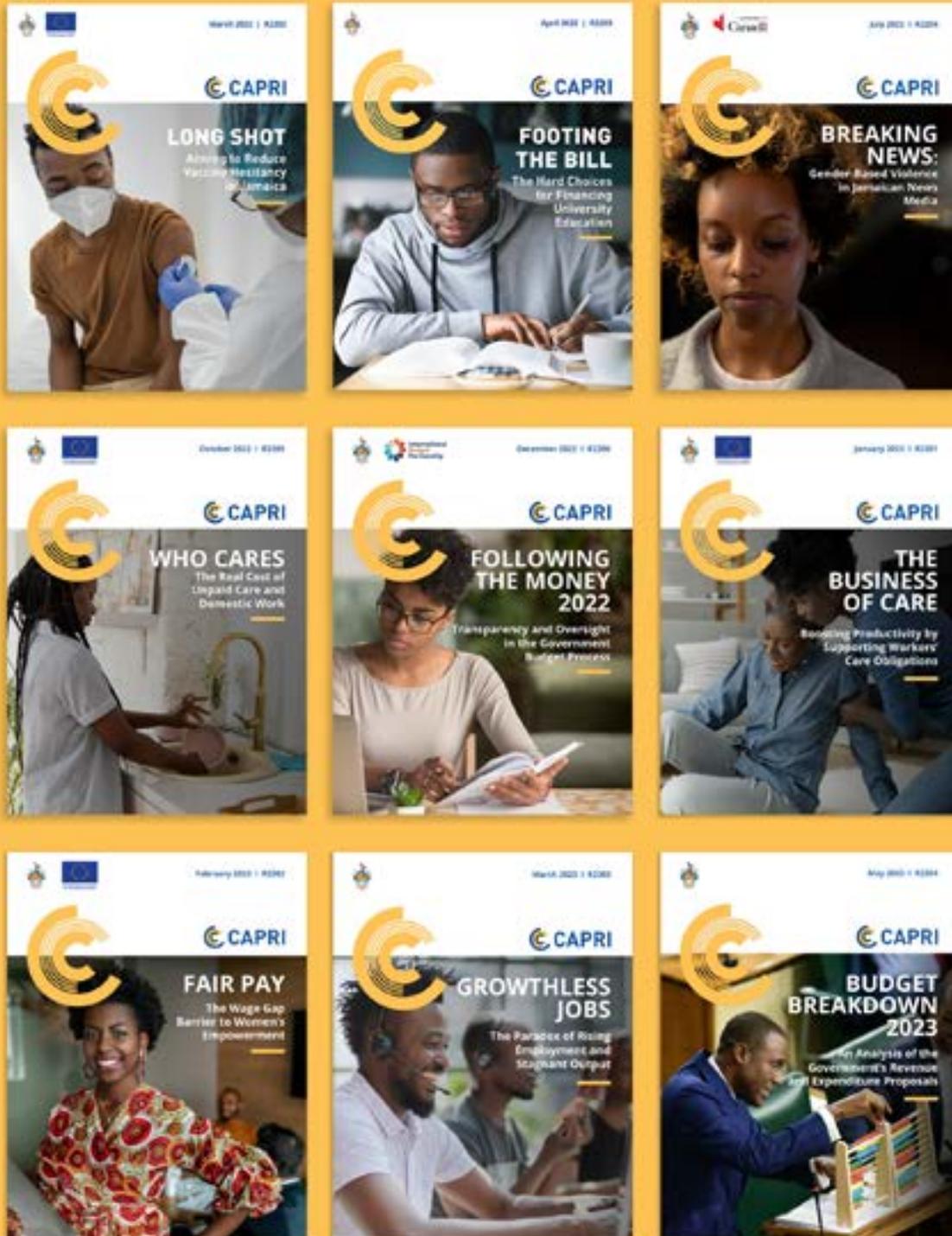
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