



CLOSING BUDGET DEBATE PRESENTATION

Wednesday, May 22, 2017

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MINISTER OF FINANCE AND THE PUBLIC SERVICE**

A. INTRODUCTION

I wish to once again thank the staff of the Ministry of Finance and the Public Service and other agencies for their assistance in the course of preparations for this Debate.

I also wish to thank the Prime Minister, Opposition Leader, and the Opposition Spokesman on Finance for their contributions

Mr. Speaker, there will be more opportunities to do so in the coming weeks but, I too would like to pay tribute to the Honourable Leader of the Opposition, Mrs. Portia Simpson Miller for her public service contribution to Jamaica. It was Winston Churchill who said of those in the public service: *“We make a living by what we get, but we make a life by what we give.”* Thank you, Most Honourable Portia Simpson Miller.

B. Response to Statements Raised by the Opposition

Mr. Speaker, before I respond to the various issues that have been raised, there were a few significant errors made by the Opposition Spokesman on Finance in his presentation that I must address at the outset.

i) In explaining the Budget, The Opposition Spokesman stated that if we take away Debt servicing costs the overall increase in the Budget is a mere 6 percent and if we take account of inflation the real increase in the budget is about 1 to 2 percent.

Mr. Speaker, this statement is incorrect. The gross budget expenditures excluding debt service costs show an increase of 10.7 percent over the FY 2016/17 budget. Even if you adjust this by an inflation rate of 4 percent, Mr. Speaker, you would still get a real increase of at least 6 percent. By any measure, this is a significant real increase in the budget given our forecast of 2-3 percent real growth in the economy.

ii) The Opposition Spokesmen also said, and I quote: “This is **NOT** a growth Budget. After the \$29 billion in taxes, the capital expenditure is only \$53 billion, of which \$40 billion—and the bulk of this is ---for debt repayment, leaving a mere \$13 billion for Capital investment...”

Mr. Speaker, I am absolutely shocked by this statement since it reflects a fundamental misunderstanding of the Budget. The budgeted amount for capital spending is \$49.3 billion, representing a 10 percent increase over

the revised budget for FY 2016/17. In fact Mr. Speaker, the capital expenditure budgeted for FY 2017/18 is 50 percent more than the capital expenditure that the Opposition Spokesman had for FY 2015/16, the last year the he was at the wicket of government.

Mr. Speaker, our budgeted capital spending for FY2017/18 will be 2.6 percent of GDP. Theirs was 1.9 percent of GDP in FY2015/16. Mr. Speaker, I must ask the question of the Opposition Spokesman, “Which budget is more pro-growth, the one with the lower capital spending or the one with the higher capital spending?” This is not a trick question. Check your math!

iii) Mr. Speaker, the Opposition Spokesman said that there was a \$58 Billion reduction on the Capital A Head in one Programme – Primary Education. However the total Capital A provision for the entire Ministry of Education was a little over \$1.0 Billion. It therefore would not have been possible to reduce any programme in the Ministry by \$58 Billion. In fact, the entire Capital Budget of the Central Government would have been wiped out, not just the Ministry of Education had there been a \$58.0 billion reduction in capital spending.

C. RESPONSES TO ISSUES RAISED BY THE OPPOSITION

Mr. Speaker, let me now respond to some of the main points raised by the Opposition Leader and Opposition Spokesman on Finance, during the budget debate.

1) EXPENDITURE ESTIMATES

With regards to Expenditure Estimates, the Opposition Spokesman was very critical of our provisions for the Students Loan Bureau, National Security, and Education.

a) Students Loan Bureau

With respect to the reduction in the Budget of the Students Loan Bureau, I want to make it clear, that the funding from the Education Tax is intact.

There is no reduction on those flows from the Central Government. What is not included in the budget of the SLB is a special grant which had been provided from the HEART Trust for assisting Tertiary students undertaking Technical/Vocational studies. I am in discussions with the HEART/NTA to have this restored.

a) National Security

The Opposition Spokesman stated that “The Recurrent Budget of the Ministry of National Security is less than that of last year in nominal terms, and MOCA has had its budget cut by more than half....”

Let me deal first with the budget of the Ministry of National Security. I agree that in 2017/18 the budget in nominal terms is less than that of 2016/17, but with good reason Mr. Speaker.

Mr. Speaker, the budget of the Institute of Forensic Science and Legal Medicine was previously reflected under the Ministry of National Security's Recurrent Head of Estimates. The Institute has now been established as a department of Government and has its own Head of Estimates.

As such, the funds which were under the Ministry of National Security were transferred to the new **Head 26056**: Institute of Forensic Science and Legal Medicine, hence the reduction in the 2017/18 Recurrent Budget of the MNS.

As regards the budget of the Major Organized Crime and Anti-Corruption (MOCA) Task Force, the fact is that ever since its transfer from the Police Department, to the Ministry of National Security, MOCA's budgetary allocation, along with that of the Institute of Forensic Science has been reflected under the same Activity – Direction and Management. The reduction in the allocation for this Activity in FY 2017/18 is simply due to the transfer of the budget for the Institute of Forensic Science and Legal Medicine to its own new Head of Estimates.

b) Education

Mr. Speaker, regarding the Education Budget, the Opposition Spokesman stated: "... when we consider that no school has been taken off the Shift System since the change of Administration, and only 12 schools are planned to be taken off this year against the 24 that the PNP administration had planned to take off the shift system in the same period."

Mr. Speaker, information provided by the Ministry of Education, Youth and Information indicates that the following schools were removed from the Shift System in FY 2016/17:

- i. Stony Hill Primary and Junior High;
- ii. Tacky High;
- iii. Discovery Bay All Age;
- iv. Moneague Primary & Junior High;
- v. Hazard Primary;
- vi. Linstead Primary and Junior High;
- vii. Old Harbour Primary;
- viii. St. Mary's All Age;
- ix. Four Paths Primary School, and
- x. In September 2016, Norman Manley High School, situated in the constituency of East Central St Andrew was removed from the shift system.

Of the 50 schools remaining on Shift, 15 schools are programmed for removal in FY 2017/18.

2) REVENUE ESTIMATES

Mr. Speaker, I now turn to the many comments on the revenue side of the budget, which both the Opposition Spokesman on Finance and the Opposition Leader have highlighted. These comments reflect their lack of

understanding of the Government's policy decision to move from direct to indirect taxation.

The following comment from the Opposition Spokesman on Finance reveals his ignorance of the policy. I quote,

“..I suspect that based on the range of indirect tax increases imposed in the last two budget cycles, these policies will have resulted in one of the most significant re-distribution of income from the poor to the rich in the history of this country on the basis of a policy choice by a sitting government.”

Mr. Speaker,

REALLY? A transfer from the poor to the rich? REALLY?!!

Mr. Speaker, is the former Minister of Finance suggesting that the hard working PAYE workers of Jamaica, who represent the backbone of the working class people of Jamaica, the 200,000 people who benefitted directly under this plan, especially the majority of whom earn less than the 1.5 million per year are rich people??

Is the PNP describing our teachers, our nurses, our police and soldiers, our civil servants, office workers, utility company workers, among others – that they are all rich people?

Mr. Speaker, these are the people we have helped with our 1.5 plan. **These are hard-working, long suffering people, continually struggling**

to make ends meet. They are not on the PATH Programme or any other welfare programme and day in, day out, they struggle to take care of their families.

Mr. Speaker, the accurate description of a transfer of wealth from the poor to the rich by the PNP, was made by a Member of this Honourable House over a decade ago, when summing up the wicked high Interest Rate Policies at the time that kept pushing up the National Debt by paying wealthy people high interest rates while taxing poor people to pay for it. It was none other than the Honorable Member for Central Kingston who described the then policies of his Party, the PNP, as providing “the greatest transfer of wealth from the poor to the rich since the Abolition of Slavery.”

We continue to pay for this massive mismanagement of the economy through high debt, poor infrastructure, and lack of social facilities, high crime, lack of investor confidence, and the ultimate disaster, massive failure of the financial sector.

So, on the contrary Mr. Speaker, the JLP Government is proud today to fulfil our second phase of our 1.5 plan because we know that this plan will lead to greater productivity and harmony among our workers and this will redound to the benefit of the entire economy in which the poor will get more jobs and benefit from greater social safety Net Transfers as we move from poverty to prosperity.

Because, Mr. Speaker, we in the JLP know how to create wealth and we know that “*A rising tide lifts all boats*” and our 1.5 plan is a part of that rising tide.

We owe it to the Jamaican people to be honest in our leadership of a reform on which they elected us to lead. Therefore, today, please allow me to explain in more detail why we remain firmly convinced that the fundamental shift from indirect to indirect taxes is fair, equitable, and right for Jamaica’s economic growth at this stage of its development.

Mr. Speaker, let me start by reiterating that this shift to indirect taxes is fully informed by many studies of the Jamaican economy, including research by staff at the Bank of Jamaica in 2011, and by the Matalon Report on Tax Reforms that same year. IMF studies also from as far back as 2009 identified the need to make the shift from direct to indirect taxes and to reduce the heavy burden on PAYE tax payers. Despite these studies, by FY 2013/14, PAYE taxes remained the single largest tax source, at over 18 percent of total taxes.

In their own assessment in 2015, the IMF concluded the following:

“Research shows that direct taxes tend to have a more negative impact on economic growth than consumption and property taxes. Taxes on the factors of production—capital and labour—discourage investment and work effort, undermining productivity.

By contrast, taxes on final consumption do not distort production and can also encourage savings, which supports investment.”

Mr. Speaker, at the same time that we had a high tax burden on PAYE, the tax base continued to be very narrow owing to our large informal economy. Various studies have estimated the size of the informal economy to be some 40 percent of GDP.

Not surprisingly therefore, Mr. Speaker, we found that of the 1,163,800 total employed workers in Jamaica in January 2016, only 469,131 or 40.3 percent were registered as PAYE. If you further exclude the 269,555 persons that were below the threshold for personal income taxes at that time, then this left only 199,577 persons—17.1 percent of the total number of employed workers in Jamaica, who were bearing the full burden of PAYE taxes. **This disproportionate burden begged for change, Mr. Speaker.**

So, Mr. Speaker, and fellow Jamaicans, taking these considerations into account, and recognizing the challenges of broadening the PAYE tax base, we took the bold decision to increase the threshold on PAYE income taxes while replacing these with consumption taxes on goods and services that are purchased.

The goal was to ensure that those who are in the 40 percent of the informal economy and who did not contribute to the tax base, but who benefited from public services, also contribute their fair share of taxes. At the same time, we expect that with higher take-home pay, worker productivity would improve, and with modestly higher disposable incomes, they would increase their spending on goods and service which, in turn, would generate more economic activity.

Mr. Speaker, the Opposition also said that our tax plan was wrong; that it could not be done, and that it would create instability.

Mr. Speaker, when you look at the tax performance of the four fiscal years under the former Finance Minister's watch, we saw only underperformance.

For FY2012/13, tax package was \$24.6 billion; tax revenues underperformed by \$15.8 billion, meaning Mr. Speaker, when you compare the actual outturn to the budget, tax revenues fell short of budget by \$15.8 billion.

For FY2013/14, tax package was \$15.9 billion; tax revenues underperformed by \$16.7 billion when compared with budget.

For FY2014/15, tax package was \$6.4 billion; tax revenues underperformed by \$13.4 billion when compared with budget.

For FY 2015/16, tax package was \$10.3 billion. In that fiscal year, the opposition had 11 months in government. We had one month, having come to government on Feb 25th. Mr. Speaker, tax revenue outturn relative to budget was a diminus underperformance of \$32 million.

Mr. Speaker, for FY2016/17, our tax package was \$13.8 billion and we gave back \$12.5 billion for the \$1.5 personal income tax, leaving only \$1.3 billion in net taxes. So far in FY2016/17, April to January, tax

revenue has outperformed by \$12 billion. And, Mr. Speaker, PAYE is ahead of budget by \$2.5 billion.

| | FY2012/13 | FY2013/14 | FY2014/15 | FY2015/16 | Apr - Jan FY2016/17 |
|------------------------------------|-----------|-----------|-----------|-----------|------------------------|
| Tax Revenue | | | | | |
| Budget | 335,625 | 360,518 | 384,286 | 411,886 | 348,516 |
| Outturn | 319,765 | 343,836 | 370,878 | 411,854 | 360,500 |
| (Underperformance)/Overperformance | (15,860) | (16,682) | (13,408) | (32) | 11,984 |
| Tax package | 24,610 | 15,900 | 6,386 | 10,348 | 1.278 |

Well Mr. Speaker, not only did we succeed in reducing the burden on payroll tax payers, but business confidence has risen to an all-time high, jobs are increasing, revenues are performing and the growth in the economy is accelerating.

D. SOCIAL PROTECTION

Additionally, Mr. Speaker, since we have taken over the Government, we have significantly increased our support for the poor and vulnerable—a fact noted this week by the Caribbean Policy Research Institute, a well-respected Think Tank. This will continue to be a priority for us. It is a conscious policy track while we also improve the environment for businesses to grow and create new jobs. It is not just a passive declared love for the poor that is needed, Mr. Speaker, you must also demonstrate by actions, as we are doing, that you can help change their lives for the better.

E. RESPONSES TO COMMENTS ON SPECIFIC TAXES

Mr. Speaker, I want to now address some specific concerns raised regarding some of the tax measures that we announced.

Before I do so, Mr. Speaker, allow me to make a few comments on the context within we have formulated these measures.

Mr. Speaker, as you and my fellow Jamaicans are well aware, Jamaica still has a very high debt burden and despite some improvements in our track record of fiscal discipline in recent years, our situation is still fragile. It is for this reason, Mr. Speaker that we continue to maintain a Program relationship with the IMF since its helps to reinforce the credibility of our economic policies to the outside world, not least to our creditors.

Mr. Speaker, the partnership with the IMF therefore remains quite important to Jamaica.

So, Mr. Speaker, in as much as they have fully supported the tax policy reforms, they have asked that we replace the losses from the higher PIT threshold with permanent tax measures, which we have proposed in the budget.

(i) GCT on Group Health Insurance Premiums

Mr. Speaker, let me now speak on the broadening of the tax base through GCT on Group Health Insurance.

If a company pays fully for its staff's group health insurance, the GCT would be paid by the company. On the other hand, if a company, pays a portion of the premium, the company would pay GCT on the portion for which it is responsible and it could also choose to pay the GCT on the portion paid by the employee.

All the payments that the company makes, that is, the premium and the GCT will be treated as a deductible expense in order to arrive at the company's income tax liability.

Simply put, those companies that are tax compliant can reduce their income tax liability in the range of 25 percent to 33 percent of the premiums for the Group Health Insurance. Those companies that are not tax compliant and don't file company income tax return will bear the full impact of the GCT on group health premiums.

Where employees make a contribution this will amount to a moderate GCT payment. For example, if the premium is \$5,000 per month and the employee pays 20 percent of that – (which appears to be the most common practice) that employee would pay a modest \$165 more per month.

Mr. Speaker, when you contrast this to the additional take home from the \$1.5 million give-back, that could be as much as \$18,000, any reasonable person would conclude that this amount is very modest.

(ii) Reform of the Public Bodies

Mr. Speaker, let me now address the reform of the Public Bodies.

The Government of Jamaica has embarked on a comprehensive rationalization of the public enterprise/public bodies sector. This will involve a series of phased, and sequenced actions over the next couple of fiscal years, whereby public bodies will, based on time-bound action plans, be merged, closed, privatized or re-integrated into the public sector.

This reform of our public bodies is an important component of the consolidation of Government's cash resources, which has involved prior reforms such as the implementation of a Central Treasury Management System (CTMS).

This consolidation, which reflects international best practice for Public Financial Management (PFM), will allow the Government to record in the Consolidated Fund its revenue flows from all sources while ensuring that the use of these resources are properly recorded as government expenditures.

Over time, this will yield significant cash flow benefits when compared to the current situation where public bodies (As a whole) receive and independently manage large inflows of resources which are not necessarily utilized immediately but are not immediately available to the Government. The Government currently can request a distribution under the Public Bodies Management and Accountability Act, however, these distributions can only practically take place occasionally.

The re-direction to the Consolidated Fund (as opposed to separate bank accounts in commercial banks) of the revenues of the Chase Fund, The Jamaica Civil Aviation Authority and the Tourism Enhancement Fund is an initial step in this phase of PFM reform.

In fact Mr. Speaker, the Opposition started the process of re-directing tax revenues while they were in government. In Ministry Paper 44/14, dated 17th April 2014, signed by none other than the Opposition Spokesman on Finance, item 8 is entitled “Re-directing of SCT from Road Maintenance Fund to Central Government.”

8. Re-directing of SCT from Road Maintenance Fund to Central Government

- a) The House of Representatives is reminded that a decision was previously taken to provide for a portion of the proceeds from the SCT on petrol to be allocated to the Road Maintenance Fund (RMF). This allocation was to be solely directed toward servicing of the US\$340mn guaranteed debt from China Exim Bank.
- b) In its commitment to prudent debt management, the GoJ is seeking to provide for consolidated debt servicing through the Central Government budget. The amounts that would have been allocated to

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the RMF will be held by the GoJ and one single debt payment made in respect to the outstanding loans to China.

- c) It is estimated that the portions from the SCT be redirected from the RMF to Central Government would be valued at **J\$1.2 billion**.

The transfer of SCT from the Road Maintenance Fund in order for the central government to provide coordinated treasury function is exactly in keeping with what we are doing. In fact, Mr. Speaker, the Road Maintenance Fund, which is one of the 61 self-financing public bodies, is being absorbed into its parent, the National Works Agency.

So for the Opposition to call this coordinated central treasury management approach a “retrograde step” is to point the finger at themselves. This amounts to baseless, reactionary and partisan rhetoric.

Property taxes

Mr. Speaker, let me say a few words on property taxes.

As I stated in my Opening Presentation, the new valuations were long overdue since the last one on which taxes are based, was in 2002. The truth is Mr. Speaker, the Opposition when they were in government completed a revaluation in 2013, but did not have the courage to implement it.

Mr. Speaker we have adopted the new 2013 valuation and have strengthened the relief provisions to help those who are economically challenged in paying their property taxes. And of course, there are mechanisms in place for those individuals who have valid reasons to appeal their property valuation.

Some of these mechanisms include:

1. *Where you believe your valuation is too high*, you may lodge an **Objection** within 60 days of service of Notice with the Commissioner of Land Valuations, c/o the National Land Agency. The NLA will be undertaking a Public Relations Campaign shortly to sensitize the public further.
2. *Where your land is in bona fide agricultural production*, You may apply for Agricultural Derating Relief, for up to 50% of the annual tax.

3. *Where your land takes into account a potential use which is higher than the existing use:* You may apply for Statutory Relief
4. *Where you are experiencing hardship,* you may apply for **Special Discretionary Relief** through any of the Municipal Corporations.

In addition registered businesses can claim the property tax as a deductible expense in their company income tax returns.

G. DEVELOPMENTS IN THE FINANCIAL SECTOR

Update on Interest rates in the banking system and fees

Mr. Speaker, I would also like to take this opportunity to update you on developments in the banking sector. Following my Opening Statement, we have received good news that lending rates by banks on new loans as at December 2016, are trending down.

Mr. Speaker, interest rates on new loans to large projects are now at 10.23 percent compared with 13 percent in December 2015. Interest rates on new loans to medium size projects, rates have fallen to 11.16 percent down from 12.8 percent in December 2015.

Even for small projects, Mr. Speaker, loan rates have declined to 13.55 percent down from nearly 14 percent a year before.

These reductions in lending rates auger well for continued economic growth as businesses can now access well needed capital at affordable rates. While there are opportunities for further reductions, I am confident that the Government's continued focus on lowering interest rates and the continued focus on public private partnerships will see further reductions and continued expansion of credit to support the economic growth agenda.

iii) Update on High bank fees

Regarding the high fees by the banks, Mr. Speaker, I am encouraged by NCB's, First Global's and First Caribbean's decision to remove fees on dormant accounts and I expect that others will also follow. Based on further discussions with the banks, I am also pleased to learn that the shift to electronic transactions, which is for the most part is free, is happening quickly with 95 percent of all NCB transactions and 87 percent of all BNS transactions now being done electronically. The truth is Mr. Speaker, more comprehensive use of electronic means of conducting financial transactions is imperative if we are to increase economic growth, higher growth means higher volumes of financial transactions.

F. CONCLUSION

In conclusion Mr. Speaker, I want to make it abundantly clear, this Government believes in this budget. It was cast within a framework of fiscal responsibility.

We believe it is a growth-inducing budget.

We believe it is a budget that allows for opportunity and hope for the people of Jamaica.

We believe it is a budget that paves the way from poverty to prosperity.

Mr. Speaker, as I stated in my opening presentation, the achievement of prosperity is a journey.

We are all part of that journey. The journey is with both smooth and bumpy passage in parts. But we believe in the resilience of the people of Jamaica.

Resilience calls for initiative.

Resilience calls for creativity.

A resilient person will not give up.

A resilient and productive person will seriously examine the policies and programmes to be financed by this budget and take advantage of the opportunities offered in areas such as housing solutions, affordable financing, income tax relief, and social protection services.

If you are resilient, there is nothing that can hold you back.

Remember prosperity begins with taking personal responsibility and having a positive mental attitude.

Let us continue on our journey for the fiscal year 2017/18, with this positive energy and God's guidance.

May God bless you all and may God bless Jamaica, land we Love

I Thank you.