Estimates of Tax Expenditures for Jamaica, 2007-2009

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Abstract: Governments have voluntarily foregone tax revenues for decades. In this research, we provide estimates of tax expenditures for the major tax types in Jamaica for the period 2007-2009. Using detailed tax returns and national accounts data, we find evidence overall that these expenditures vary widely among the major tax types. Nonetheless, an important caveat is that some of our estimates were mainly based on data of varied quality and as such, these findings should be viewed as suggestive, if not tentative.

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1.0 Introduction

Raising additional tax revenue is a relatively difficult exercise for governments globally. Despite this fact, the Jamaican Government over the years is yet to have a reasonable idea of the magnitude of its tax expenditures[1] (apart from the periodic discretionary ministerial waivers). If such estimates were readily available, then policy makers could assess areas in which potential tax revenue was 'willingly' foregone by Government and then target those areas for curtailment. In this research, we attempt to fill this gap by complementing Hutton's (2010) report and provide more precise estimates of tax expenditures in Jamaica for five major tax types.[2] A major function of the tax system is to raise adequate revenues necessary to fund government expenditures on various social programmes. The tax system can also be used directly to achieve public policy objectives through *inter alia* the application of special tax rates for various sectors, exemptions, deductions and credits that affect the tax burden faced by an individual taxpayer. Such measures are typically described as "tax expenditures" because they achieve policy objectives at the expense of foregone[3] tax revenue for governments (Department of Finance Canada (2009, p. 9)). A tax expenditure budget, which provides an overall gathering of the costs of all these provisions, is a useful tax policy planning tool as it helps to identify how much the various exemptions, deductions, etc. are costing the Government annually. In view of the fact that it is the Jamaican Government's intention to present for the first time an annual

[1] It is crucial to point out from the outset that there is generally no universal definition for "tax expenditures". However, one commonly used definition of a tax expenditure is "any measure which results in a reduction of tax for a specific type of taxpayer or activity" (Hutton, 2010, p. 1). In other words, tax expenditures essentially represent spending programmes implemented through the tax code (Source: www.americanprogress.org [accessed February 17, 2011]. Alternatively, Minarik (2010, p. 3) defines tax expenditures simply as "provisions that allow certain groups of taxpayers to pay less in taxes" while Burman (2003, p. 613) describes these expenditures as "departures from the normal tax structure designed to favour a particular industry, activity or class of persons". Moreover, what specifically constitutes a tax expenditure is at times very subjective and thus the magnitude of tax expenditures varies widely across countries (see Minarik (2010) for an extensive discussion on tax expenditures in selected OECD countries).

[2] These tax types combined currently account for approximately 82.0 per cent of government revenue. The measurement of tax expenditures for less important tax types is therefore outside the scope of this research partly because of the fact that attempting to estimate expenditures for those would produce estimates that are outside an acceptable margin of error.

[3] It is also important to bear in mind that tax expenditures are not actual outlays as they are based on assumptions and estimates as to how taxpayers would behave under certain conditions (Minarik, 2010, p. 12). In other words, tax expenditures are not amounts that governments actually "spend out of hand" (but rather money foregone in tax revenues) and as such, these estimates are usually presented separately from the regular (fiscal) budget. Ideally, in the Jamaican context, tax expenditure estimates should be presented annually during the month of October (at the earliest) based on a time span that would permit the availability of reliable tax returns data.

tax expenditure budget in the near future, as a result this research provides another useful contribution by compiling these estimates thereby helping to fulfil this objective.

In this research, our major objective is to provide rough estimates of the total amount foregone by Government in terms of tax expenditures (including incentives and waivers granted) during the period 2007-2009. Our contributions are as follows: First, we provide revised estimates of tax expenditures for the major tax types in Jamaica. To the best of our knowledge, this is only the second research of this nature as hitherto, there was only one empirical study that measured tax expenditures for Jamaica, most notably; Hutton (2010). Consequently, a major objective of our research is that we make an attempt to fill this lacuna. Hutton (2010) for example, in an interesting analysis specifically provided original estimates of Jamaica's tax expenditures for the period 2005-2008. The author also presented numerous recommendations to enhance the preciseness of those tax expenditure estimates including *inter alia* enhancing the current tax forms to facilitate better data capture from the tax returns data. Unlike Hutton (2010), this research provides more precise estimates including additional tax expenditures that were excluded from Hutton's (2010) report for the period 2007-2009.[4] It is important to point out from the outset that the tax expenditure estimates presented in this research were computed by international tax policy consultant, Eric Hutton with feedback obtained from the selected officials from the Taxation Policy Division, Ministry of Finance and the Public Service (and kind assistance from personnel from the Tax Administration Directorate, Fiscal Services Ltd., the Statistical Institute of Jamaica and the Jamaica Customs Department). Finally, it is important to note that Minarik (2010) and Hutton (2009) for example, already outline the methodologies and other major issues involved in the computation of tax expenditures so we will not re-examine these issues here for the sake of brevity.

[4] The tax expenditures for the first two years i.e. 2007 and 2008 were revised based on the fact that additional tax returns were filed by taxpayers since Hutton's (2010) report. Moreover, it is worthy to note that the tax expenditures listed here are not exhaustive as they only represent amounts that could be reasonably quantified using the available data. For a detailed list of other possible tax expenditures that could be estimated (if the required data were available) by tax type in the Jamaican context, see Hutton (2011, pp. 6-88; 2010, pp. 4-24).

The remainder of the paper is organized as follows: First, we present tax expenditure estimates of the Corporate Income Tax (CIT) and the Personal Income Tax (PIT) in Section 2. Next in Section 3, we provide estimates of the Education tax expenditures followed by the General Consumption Tax expenditures in Section 4. Section 5 summarizes the Special Consumption Tax (SCT) expenditures. Next, Section 6 illustrates Jamaica's Trade Tax expenditures while Section 7 concludes the paper and suggests areas for future research.

2.0 Income Tax Expenditures

The tax expenditures for Corporate Income Tax and Personal Income Tax are broken into five[5] categories: Exemptions, Deductions and Allowances, Reduced Rates, Credits, and Waivers and Reimbursements. This categorization is based on the reporting method for each expenditure according to the income tax forms. It should be noted that this categorization may differ from one based on the structure of the *Income Tax Act*; for instance some income tax exemptions are required to be reported as income tax at a 0% rate.

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

The "*Deductions and Allowances*" category includes any deductions from gross income over and above those typically allowable in relation to the costs incurred in the generation of that income, including any special capital cost allowance provisions. Many of the expenditures under this category could not be estimated, as the tax return contains no

[5] As mentioned earlier, only the quantifiable tax expenditures are reported here. This is a major departure from Hutton's (2010) seminal report which provided an exhaustive list of all the possible tax expenditures that could be computed for Jamaica provided that all the relevant data were available.

specific line item for the inclusion of the deduction or allowance. Taxpayers may be including these deductions and allowances under other line items or not including them in reported income. Some line items contain reporting of more than one deduction; in these cases the joint cost of the expenditures is presented.

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

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

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

2.1 Corporate Income Tax Expenditures

Table 1: Corporate Income Tax Expenditures, 2007-2009

Tax Provision	Description	Quality Indicator	**2007**		**2008**		**2009**	
			J$M	% Reported Net Tax	J$M	% Reported Net Tax	J$M	% Reported Net Tax
Deductions and Allowances								
ITA[†] 13(1)(o)	"Covenanted Donations"	B	300.18	1.81	302.24	1.57	194.09	1.60
ITA 13(1)(q)	Donations to Approved Charities	B	33.94	0.20	15.37	0.18	137.99	0.18
Tax Credits								
Various	"Income Tax Relief in Respect of Incentive Income"	B	1,555.98	9.38	2,161.53	8.14	1,295.57	8.29
Various	"Other Credits"	D	2,819.55	17.00	3,308.12	14.76	3,624.76	15.02
Waivers and Reimbursements								
Various	Waivers (excluding waivers on penalties and interest)	A	62.14	0.37	12.12	0.06	0.08	0.00

Reported Net Tax[6]	16,582.33	19,104.03	18,770.73

Source: Computed by Eric Hutton with the assistance of selected officials from the Ministry of Finance and the Public Service.
Notes: The abolition of particular tax expenditure would not necessarily yield the full tax revenues shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures (see Hutton (2010, p. 2) for further discussion). †*Income Tax Act*. Estimates are for the respective calendar years. "Reported Net Tax" or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit.

2.2 Personal Income Tax Expenditures[7]

Table 2: **Personal Income Tax Expenditures, 2007-2009**

Tax Provision	Description	Quality Indicator	**2007**		**2008**		**2009**	
			J$M	% Reported Net Tax	J$M	% Reported Net Tax	J$M	% Reported Net Tax
Exemptions								
ITA 13(1)(i), (u) (j)	Pension Contributions	C	99.05	4.10	102.95	4.00	127.29	5.80
Deductions and Allowances								
ITA 12(c)(o)	Pension and Old Age Relief	C	50.10	2.10	47.04	1.80	39.37	1.80
ITA 12(c)(o)	Other Pension Exemptions	C	46.42	1.90	16.57	0.60	44.07	2.00

6 This is the total net tax reported on submitted tax returns on file in the ICTAS database (not actual revenue collections).
7 These estimates relate specifically to the individual income taxpayers (self-employed) rather than to the PAYE employees who are not usually required to file income tax returns.

ITA 13(1)(o)	"Covenanted Donations"	B	13.67	0.60	6.36	0.20	3.04	0.10
ITA 13(1)(o)	Donations to Approved Charities	B	2.60	0.10	4.99	0.20	11.35	0.50
Tax Credits								
Various	"Income Tax Relief in Respect of Incentive Income"	B	13.50	0.60	3.73	0.10	7.97	0.40
Various	"Other Credits"	D	50.11	2.10	26.22	1.00	17.96	0.80
Waivers and Reimbursements								
Various	Waivers (excluding waivers on penalties and interest)	A	37.90	0.02	0.74	0.00	-	-
Reported Net Tax			2,409.42		2,589.28		2,183.99	

Source: Computed by Eric Hutton with the assistance of selected officials from the Ministry of Finance and the Public Service.

Notes: The abolition of particular tax expenditure would not necessarily yield the full tax revenues shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures (see Hutton (2010, p. 2) for further discussion). Pension Contributions include contributions to superannuation funds, retirement funds, and other funds approved by the Minister. The deduction ITA 12(c) (which includes income tax exemptions for wound, disability and war pensions and gratuities) is now disaggregated into "Pension & Old Age Relief" and "Other Pension Exemptions". Estimates are for the respective calendar years. "Reported Net Tax" or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit.

3.0 Education Tax Expenditures

There are only two tax expenditures for education tax identified, both provided for under the *Education Tax Act*. While the method for determining the value of these tax expenditure involves a simple extrapolation of data which should be reported on the tax forms, analysis of the tax return data indicates that the data collected are likely unrepresentative. An 'F' rating has been assigned to the tax expenditures as a result of the data issues, which typically indicates that either there is insufficient data available to conduct an estimate, or that data issues are such that the margin of error is likely larger than the estimate. In this case, as the data issue is that only an unknown proportion of the tax return data appear to be available, while the degree of accuracy of the estimates cannot be determined, the values provided should represent a minimum value for the costs.

Table 3: **Education Tax Expenditures, 2007-2009**

Tax Provision	Description	Quality Indicator	2007 J$M	2007 % Reported Net Tax	2008 J$M	2008 % Reported Net Tax	2009 J$M	2009 % Reported Net Tax
Education Tax Act								
7(1)(d),(e)	Exemption from the employers' portion of education tax for parish council and municipal corporations.	F	1.74	0.01	0.00	0.00	0.00	0.00
Waivers and Reimbursements								
Various	Waivers (excluding waivers on penalties and interest)	A	0.45	0.00	0.19	0.00	---	---
Reported Net Tax			1,854.27		2,209.80		2,270.42	

Source: Computed by Eric Hutton with the assistance of selected officials from the Ministry of Finance and the Public Service.

Notes: The abolition of particular tax expenditure would not necessarily yield the full tax revenues shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures (see Hutton (2010, p. 2) for further discussion). Estimates are for the respective calendar years. "Reported Net Tax" or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit.

4.0 General Consumption Tax Expenditures

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

Under the *GCT Act*, tax expenditures typically fall under three major categories[8]; special treatment outlined in the Act, zero-rating provided for under the First Schedule, and exemptions provided for under the Third Schedule. For the zero-rating and exemptions schedules, the expenditure estimates have been summarized by broad categories. For example, the "Basic Food" tax expenditure is the summary of over 15 separate provisions under the Third Schedule. While detailed data on the importation of the individual product categories are available from the customs records, similar data are unavailable for supplies coming from domestic production. As a result, providing any further disaggregation of the estimates would result in unacceptable increases in the margins of error.

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

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[8] It is important to note that there is a new GCT expenditure that is presented in this report i.e. a tax expenditure for the reduced import base of the GCT caused by the current policy of excluding the Customs User Fee (CUF) and Standard Compliance Fee (SCF) from the GCT (imports) base.

The Charter for the University of the West Indies provides for certain exemptions from GCT. The tax expenditure estimate values reported strictly pertain to GCT exempted on imports.

On the other hand, the "Waivers" category only includes those waivers granting reductions in tax payable at time of import. It is important to note however that no data were available on any waivers, reimbursements or refunds post-payment of the tax.

Table 4: **General Consumption Tax Expenditures, 2007-2009**

Tax Provision	Description	Quality Indicator	**2007**		**2008**		**2009**	
			J$M	% Reported Net Tax	J$M	% Reported Net Tax	J$M	% Reported Net Tax
GCT Act								
Section 4	Reduced base on imports	A	38.82	0.1	37.47	0.1	20.67	0.0
Section 4	Reduced rate for for Tourism	A	4,729.36	7.6	5,598.78	8.3	6,921.34	10.8
	Reduced Tax Base for Tourism	A	548.43	0.9	593.81	0.9	370.74	0.6
First Schedule	Airline Industry	C	6.73	0.00	8.87	0.0	10.86	0.0
First Schedule	Designated Educational Supplies	C	13.80	0.00	16.41	0.0	18.70	0.0
First Schedule	Designated Health Care							

	Supplies	C	50.41	0.10	51.83	0.1	55.05	0.1
First Schedule	Religious or Charitable Purposes	C	0.42	0.00	3.01	0.0	0.67	0.0

Tax Provision	Description	Quality Indicator	2007		2008		2009	
			J$M	% Reported Net Tax	J$M	% Reported Net Tax	J$M	% Reported Net Tax
Third Schedule	Designated Inputs into Agriculture and Fishing	C	324.93	0.5	317.01	0.5	260.65	0.4
Third Schedule	Basic Food	C	4,681.03	7.5	5,745.65	8.6	6,094.43	9.5
Third Schedule	Buses	B	1,307.63	2.1	253.67	0.4	45.38	0.1
Third Schedule	Computers for Designated Bodies	C	91.21	0.9	681.69	1.0	258.16	0.4
Third Schedule	Designated Educational Supplies	C	92.00	0.1	96.44	0.1	96.04	0.1
Third Schedule	Designated Energy Conservation Equipment	B	16.30	0.0	25.85	0.0	18.80	0.0

Tax Provision	Description	Quality Indicator	2007		2008		2009	
			J$M	% Reported Net Tax	J$M	% Reported Net Tax	J$M	% Reported Net Tax
Third Schedule	Designated Health Care Supplies	C	1,015.23	1.6	1,178.17	1.8	1,426.73	2.2
Third Schedule	Designated Printing and Printed Materials	C	842.34	1.3	2,045.54	3.0	548.85	0.9
Third Schedule	Designated Materials for Religious or Charitable Purposes	C	2.09	0.0	2.74	0.0	2.10	0.0
Third Schedule	Vehicles for Specified Persons	B	2,330.18	3.7	949.99	1.4	630.08	1.0
Third Schedule	Construction Services	C	183.91	0.3	256.04	0.4	184.63	0.3
Third Schedule	Residential Rental	C	890.96	1.4	1,031.15	1.5	1,146.24	1.8
Third Schedule	Health Care and Veterinary Services	C	152.07	0.2	174.23	0.3	189.91	0.3
Third Schedule	Education Services	C	1,148.69	1.8	1,277.76	1.9	1,437.10	2.2

Third Schedule	Life & Health Insurance	B	1,644.22	2.6	3,723.89	5.6	4,174.41	6.5

Tax Provision	Description	Quality Indicator	2007		2008		2009	
			J$M	% Reported Net Tax	J$M	% Reported Net Tax	J$M	% Reported Net Tax
Third Schedule	Water Supply	C	433.93	0.7	588.63	0.9	681.18	1.1
Third Schedule	Electricity Supply	B	3,562.33	5.7	4,486.01	6.7	5,006.47	7.8
Third Schedule	Financial Services	B	4,866.05	7.8	6,274.37	9.4	7,375.31	11.5
Third Schedule	Petroleum Fuels	C	432.57	0.7	471.35	0.7	552.49	0.9
Incentive Acts								
Hotel Incentive	Imports for the tourist industry	A	127.89	0.2	450.06	0.7	68.99	0.1
Motion Picture Incentive	Imports for the motion picture industry	A	8.15	0.0	8.12	0.0	6.21	0.0

Tax Provision	Description	Quality Indicator	2007		2008		2009	
			J$M	% Reported Net Tax	J$M	% Reported Net Tax	J$M	% Reported Net Tax
Public Transport Incentive	Imports for the public transport (corp. area) program	A	84.35	0.1	119.01	0.2	4.01	0.0
World Cup Incentive	Imports for the World Cup	A	5.68	0.0	0.00	0.0	0.0	0.0
Other Acts or Charters								
Separate Charter	Education	A	89.42	0.1	78.98	0.1	86.18	0.1
Separate Charter	Remission Under Own Act	A	1.22	0.0	3.00	0.0	2.93	0.0
Waivers and Reimbursements								
Waiver	Full Waiver	B	4,617.22	7.4	3,026.59	4.5	3,793.06	5.9
Waiver	Partial Waiver	B	219.48	0.4	123.95	0.2	8.91	0.0
Waiver	Waiver for Hybrid Cars	B	11.85	0.0	15.48	0.0	0.0	0.0
Waiver	Waiver for Hybrid Trucks	B	53.41	0.1	8.27	0.0	0.0	0.0
Waiver	Waiver for JUTA	B	8.96	0.0	1.69	0.0	0.0	0.0
Reported Net Tax			62,625.56		67,088.60		64,336.24	

Source: Computed by Eric Hutton with the assistance of selected officials from the Ministry of Finance and the Public Service.
Notes: The abolition of particular tax expenditure would not necessarily yield the full tax revenues shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures (see Hutton (2010, p. 2) for further

discussion). Estimates are for the respective calendar years. "Reported Net Tax" or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit.

5.0 Special Consumption Tax Expenditures

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

SCT expenditures are provided for under the *GCT Act*, which enacts the SCT, various incentive Acts, defined in the charters of some organizations, or through waivers allowed under various pieces of legislation such as the *GCT Act* and the Constitutional powers of the Minister of Finance.[9]

Under the *GCT Act*, the tax expenditures are related to the exemption schedule for the GCT. This is due to the change in the tax treatment of motor vehicles, which used to be taxed at special rates under the GCT, but are now taxed at the standard rate under the

[9] It is important to note that due to a change in the motor vehicle rate structure effective May 12, 2008 (to a situation where there is now the standard GCT rate applied to each imported motor vehicle in conjunction with an SCT rate depending on the actual *cc* rating, laden weight (in the case of pick-ups or buses) or seating capacity (for buses) of the vehicle), one will notice later a dramatic increase in the tax expenditures for the SCT in that year (compared with previous estimates in Hutton (2010, pp. 16-17)) as well as in 2009. This is a reasonable expectation as the SCT was applied to motor vehicles for the first time in Jamaica similar to tobacco, alcohol and fuel. Furthermore, unlike in Hutton (2010), the SCT expenditures are now disaggregated into two components i.e. specific and the *ad valorem* SCT.

GCT and have SCT applied. As a result, provisions in the Act which used to relate to relief for GCT for motor vehicles for certain purposes, were amended to allow for relief from SCT.
A number of tax incentive acts providing exemption from payment of SCT on designated supplies, petroleum fuels and motor vehicles for the most part.

The Charter for the University of the West Indies provides for certain exemptions from taxes under the *GCT Act*. The tax expenditure estimate values reported strictly pertain to SCT exempted on imports.

The "Waivers" category only includes those waivers granting reductions in tax payable at time of import, no data were available on any waivers, reimbursements, or refunds post-payment of the tax.

The "Domestic Sales" category is broken down by sales reported on the SCT as being exempt, versus sales reported on the SCT return as being zero-rated.

Table 5.1: **Special Consumption Tax (*Ad Valorem*) Expenditures, 2007-2009**

Tax Provision	Description	Quality Indicator	2007 J$M	2007 % Reported Net Tax	2008 J$M	2008 % Reported Net Tax	2009 J$M	2009 % Reported Net Tax
Imports								
GCT Act								
	Imports for Agriculture and Fishing	A	-	-	37.81	0.2	54.43	0.2
	Airline Industry							
	Alcohol	A	0.35	0.0	0.16	0.0	1.02	0.0
	Vehicle		-	0.0	0.47	0.0	1.06	0.0
	Buses							
	Vehicle		0.0	0.0	13.77	0.0	4.94	0.0
	Vehicles for specified persons	A	-	-	473.74	2.9	840.47	3.2
Incentive Acts								
Free Zone Incentive	Imports of free zone company (Tobacco)	A	0.11	0.0	-	0.0	0.0	0.0
	Vehicles		0.0	0.0	0.0	0.0	0.63	0.0
Bauxite and Alumina Incentive	Imports by Bauxite and Alumina companies	A	-	0.0	10.42	0.1	28.46	0.1

Motion Picture Incentives	Imports by motion Studio	A	-	0.0	1.38	0.0	5.39	0.0
Public Transport Incentive	Imports for the public transport (corp area) programme	A	-	0.0	0.78	0.0	0.53	0.0
Other Act or Charters								
University of West Indies Charter	Imports for educational purpose	A	-	0.0	5.80	0.0	5.27	0.0
Waivers and Reimbursements								
Various	Waivers on imports	A	0.06	0.0	385.15	2.4	1,938.89	7.5
Reported Net Tax (i.e. *Ad valorem* + Specific)			13,247.16		16,225.96		25,987.72	

Source: Computed by Eric Hutton with the assistance of selected officials from the Ministry of Finance and the Public Service.

Notes: The abolition of particular tax expenditure would not necessarily yield the full tax revenues shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures (see Hutton (2010, p. 2) for further discussion). Estimates are for the respective calendar years. "Reported Net Tax" or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit.

Table 5.2: **Special Consumption Tax (*Specific*) Expenditures, 2007-2009**

Tax Provision	Description	Quality Indicator	2007		2008		2009	
			J$M	% Reported Net Tax	J$M	% Reported Net Tax	J$M	% Reported Net Tax
Imports								
GCT Act								
	Airline Industry:	A						
	Alcohol		0.12	0.0	0.10	0.0	0.05	0.0
	Fuel		0.45	0.0	0.48	0.0	0.42	0.0
	Imports of Buses	A	-	-	-	-	-	-
	Vehicles for specified persons	A	-	-	-	-	-	-
Incentive Acts								
Free Zone Incentive	Imports of free zone company	A	0.58	0.0	1.07	0.0	-	0.0
Bauxite and Alumina Incentive	Imports by Bauxite and Alumina companies	A	305.03	2.3	320.54	2.0	95.41	0.4
Motion Picture Incentives	Imports by motion Studio	A	-	-	-	-	-	-

Public Transport Incentive	Imports for the public transport (corp area) programme	A	-	-	-	-	-	-
Other Act or Charters			-	-	-	-	-	-
University of West Indies Charter	Imports for educational purpose	A	-	-	-	-	-	-
Waivers and Reimbursements								
Various	Waivers on imports	A	110.66	0.8	140.98	0.9	231.71	0.9
Domestic								
Various	Partial Waivers on Fuel for JPS	A	3,030.25	22.9	2,991.60	18.4	3,033.68	11.7
Reported Net Tax (i.e. Ad valorem + Specific)			13,247.16		16,225.96		25,987.72	

Source: Computed by Eric Hutton with the assistance of selected officials from the Ministry of Finance and the Public Service.

Notes: The abolition of particular tax expenditure would not necessarily yield the full tax revenues shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures (see Hutton (2010, p. 2) for further discussion). Estimates are for the respective calendar years. "Reported Net Tax" or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit.

6.0 Trade Tax Expenditures

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

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

Most tax incentive Acts provide for a concession on import duty for capital machinery and equipment, and some consumables, specific to the industry in question. More limited exemptions are provided for the CUF.

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

The "Waivers" category only includes those waivers granting reductions in tax payable at time of import, no data were available on any waivers, reimbursements, or refunds post-payment of the tax, or waivers of post-entry audits.

Table 6: Import Duty Expenditures, 2007-2009

Tax Provision / Description	Quality Indicator	2007 J$M	2007 % of Net Tax	2008 J$M	2008 % of Net Tax	2009 J$M	2009 % of Net Tax
Customs Act, Second Schedule							
Agriculture and Fishing	A	-	0.00	-	0.00	-	0.00
Airline Industry	A	97.39	0.54	88.34	0.45	65.13	0.35
Education	A	1.59	0.01	4.06	0.02	1.47	0.01
Health Care	A	4.07	0.02	3.99	0.02	0.19	0.00
Postal	A	-	0.00	-	0.00	-	0.00
Religious or Charitable Purposes	A	3.45	0.02	8.61	0.04	5.40	0.03
Scientific or Research Purposes	A	0.02	0.00	-	0.00	-	0.00
Customs Act, Third Schedule							
Agriculture and Fishing	A	27.73	0.15	22.65	0.12	20.05	0.11
Education	A	0.10	0.00	0.36	0.00	0.72	0.00
Electrical Generation	A	0.01	0.00	0.01	0.00	-	0.00
Energy Conservation	A	4.62	0.03	8.02	0.04	13.80	0.07
Fire Fighting	A	0.19	0.00	0.25	0.00	0.12	0.00
Health Care	A	-	0.00	-	0.00	-	0.00
Manufacturing	A	2,195.76	12.23	2,441.89	12.41	2,882.63	15.58

Mining	A	-	0.00	-	0.00	-	0.00
Printing and Printed Materials	A	2.92	0.02	2.91	0.01	0.40	0.00
Scientific or Research Purposes	A	0.00	0.00	0.00	0.00	0.00	0.00
Shipping	A	815.85	4.54	983.84	5.00	994.70	5.38
Sports Equipment	A	92.13	0.51	99.95	0.51	114.80	0.62
Telecommunications	A	16.36	0.09	12.29	0.06	9.33	0.05
Vehicles for Specified Persons	A	-	0.00	-	0.00	-	0.00
Incentive Act							
Export Incentive	A	22.74	0.13	6.31	0.03	2.64	0.01
Free Zones	A	966.48	5.38	3,202.27	16.27	2,825.94	15.28
Hotel Incentive	A	642.73	3.58	927.72	4.71	432.53	2.34
Manufacturing	A	0.21	0.00	-	0.00	-	0.00
Mining	A	3,329.44	18.54	13,177.52	66.96	1,748.76	9.45
Motion Picture Incentive	A	15.52	0.09	22.06	0.11	11.97	0.06
Petrol Incentive	A	5.50	0.03	28.89	0.15	6.89	0.04
Pioneer Industry Incentive	A	-	0.00	-	0.00	-	0.00
Public Transport Incentive	A	0.05	0.00	0.01	0.00	0.00	0.00

World Cup Incentive	A	7.69	0.04	-	0.00	-	0.00
Separate Charter							
Education	A	38.18	0.21	46.26	0.24	53.45	0.29
Waivers under Own Act		7.13	0.04	8.83	0.04	10.77	0.06
Waivers	A	5,067.35	28.21	6,362.81	32.33	6,889.44	37.24
Full Waiver	A	4,319.54	24.05	5,644.55	28.68	6,156.21	33.28
Partial Waiver	A	747.81	4.16	718.26	3.65	733.23	3.96
Reported Net Tax		17,960.44		19,678.50		18,500.00	

Source: Computed by Eric Hutton with the assistance of selected officials from the Ministry of Finance and the Public Service.

Notes: The abolition of particular tax expenditure would not necessarily yield the full tax revenues shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures (see Hutton (2010, p. 2) for further discussion). Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit.

Table 7: Customs User Fee Expenditures, 2007-2009

		2007		2008		2009	
Row Labels	Quality Indicator	J$M	% of Net Tax	J$M	% of Net Tax	J$M	% of Net Tax
Customs Act							
Agriculture and Fishing	A	-	0.00	-	0.00	1.21	0.02
Free Zones	A	156.97	2.53	354.48	4.54	339.25	5.22
Manufacturing	A	75.81	1.22	16.45	0.21	2,037.98	31.35
Religious or Charitable Purposes	A	238.60	3.85	433.84	5.56	217.89	3.35
Incentive Act							
Free Zones	A	1.00	0.02	1.15	0.01	1.02	0.02
Mining	A	1,036.96	16.74	1,469.71	18.83	326.39	5.02
World Cup Incentive	A	0.82	0.01	-	0.00	0.00	0.00
Waivers							
Petrol Incentive	A	23.61	0.38	56.22	0.72	25.17	0.39
Waiver	A		1.99		1.45	127.25	1.96

		123.39		113.42			
Partial Waiver	A	0.00	0.00	0.00	0.00	5.16	0.08
Reported Net Tax		6,193.85		7,806.13		6,500.00	

Source: Computed by Eric Hutton with the assistance of selected officials from the Ministry of Finance and the Public Service.
Notes: The abolition of particular tax expenditure would not necessarily yield the full tax revenues shown in the table. Discrepancies due to rounding. The standard approach adopted was to measure each tax expenditure in isolation i.e. ascertaining the cost of an individual expenditure with the assumption that all other tax expenditures remained in place. Moreover, it is inaccurate to simply aggregate the individual tax expenditure figures (see Hutton (2010, p. 2) for further discussion). Estimates are for the respective calendar years. “Reported Net Tax” or Net Tax Payable is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit.

7.0 Conclusion

In this research, we attempted to provide estimates for the potential monetary amount foregone by Government in terms of tax expenditures incurred during the period 2007-2009. Our findings show that for the period 2007-2009, the magnitude of these expenditures varied widely. An important caveat is that our estimates were based on data of varied quality and as such, these findings should be viewed as suggestive, if not tentative. Consequently, it is imperative that future work not only bear this in mind in the computation of Jamaica's tax expenditure estimates but also that staff at the *Tax Administration Directorate*, *Fiscal Services Ltd.* and the *Statistical Institute of Jamaica (STATIN)* urgently direct their efforts to provide better quality[10] tax returns data and more recent national accounts[11] data to better facilitate evidence-based policy.

[10] For a rough indication of the data quality and the associated 'grades' assigned to the tax expenditure estimates, see Appendix 2.

[11] A 2000 Input-Output (I-O) table for example, was partly used to generate the tax expenditure estimates especially for the GCT. This table is arguably dated (based on the fact that the structure of the Jamaican economy has dramatically changed since 2000) and ideally, it would have been better to utilize a more recent I-O table. Unfortunately, due to resource constraints, an updated I-O table (2007 version) will not be produced by STATIN until June 2011 at the earliest.

Appendix 1

Caveats

The problem with adding tax expenditures is that the value of two tax expenditures in isolation might be different than two tax expenditures combined. For example, an import duty exemption reduces the base for the GCT, which would result in a lower cost for GCT expenditures. So if one just added the cost of the import duty exemption and the GCT exemption together, it would be less than the true total revenue impact that would result from removing both incentives simultaneously - the removal of the import duty exemption would increase the base which would result in more GCT revenue. Some other interactions might result in a combination of incentives that if simultaneously removed would result in less revenue than their individual estimates.

Consequently, no totals were provided for tax expenditures by tax type in any of the above-mentioned tables, since adding across individual tax expenditures can result in an over-estimation of the potential revenue impact of various combinations of tax expenditures. For example, the tax expenditure estimate for the reduced GCT base for tourism cannot be added to the tax expenditure estimate for the reduced rate of tax for tourism, as the reduced base estimate uses the reduced rate as the “normal” rate for estimating the value of the expenditure (Hutton, 2010, p. 2).

Warnings about tax expenditure estimates are so important that the Department Finance Canada (2009, p. 11) report for example specifically states that caution must be taken in interpreting the respective estimates due partly to the following:

- The estimates are intended to indicate the potential revenue gain that would be realized by removing individual tax measures. They are developed assuming that the underlying tax base would not be affected by removal of the measure. However, this is an assumption that is unlikely to be true in practice as the behaviour of beneficiaries of tax expenditures, overall economic activity and other Government policies could change along with the specific tax provision. Consequently, it does not necessarily follow that there would be a commensurate increase in tax revenue from the abolition of a tax expenditure. This is based on the possible behavioural responses by the recipients of tax expenditures and overlaps in the coverage of different tax expenditures (*Source*: http://www.treasury.gov.au/documents/1211/PDF/03_Chapter3.pdf [accessed March 14, 2011]).

- The cost of each tax measure is determined separately i.e. assuming that all other tax provisions remain unchanged. However, many of the tax expenditures do interact with each other such that the impact of several tax provisions at once cannot generally be calculated by adding up the estimates for each provision. One must note that the standard "*revenue-forgone approach"* was generally utilized in conjunction with some micro-simulation models to measure the tax expenditures in this research. The revenue-forgone method essentially involves estimating the potential tax revenues that might have been generated in the absence of a tax expenditure while assuming that the taxpayers' behaviour remained unaltered.[12]
- The tax expenditure estimates presented in this research were computed using the latest available tax returns data. Revisions to the underlying data as well as improvements to the methodology can result in substantial changes to the value of a given tax expenditure in forthcoming publications of tax expenditure estimates.

These issues also apply to the Jamaican context and as a result, the reader should seriously bear these in mind. Finally, as mentioned above, "**Reported Net Tax"** or **Net Tax Payable** is essentially, the total amount of tax that the taxpayers are required to pay over to the Revenue (i.e. when the value is positive) or the total amount of tax owed to the taxpayers by the Revenue in the case where there is a credit. The respective figures were obtained from the respective tax returns data in a field

[12] The three major (alternative) methods for computing tax expenditures in the public finance literature are: (a) the "revenue-forgone" approach, (b) the "revenue-gain" technique and (c) the "equivalent expenditure" procedure. For a comprehensive discussion on these three approaches, see Australian Government (2010, pp. 16-17). It is important to note that despite its major weakness (i.e. the approach assumes no change in taxpayers' behavioural parameters), there is a general consensus that the revenue-foregone method is the most appropriate of the three and as a result, it is widely utilized for the purposes of constructing a tax expenditure budget (Australian Government, 2010, p. 16).

called “tax return amount”. It is important to note that the reported net tax is a critical value, which was basically included in the tables so that we could express each tax expenditure as a proportion of the total net tax payable. Moreover, it is crucial to note that the “reported net tax” is based on returns data and as such, is not necessarily equal to the actual net revenue collections for a particular tax type.

Appendix 2

Data Quality Indicators

For each of the tax expenditure estimates reported in this research an indicator of the quality of the estimate based on the quality of the data used in the estimate was assigned. A letter grading system is used for these indicators; the interpretation of which is roughly as follows:

- “**A**” Highly dependable data used in the estimate, resulting in a likely margin of error in the range of 0 – 10%.
- “**B**” Some issues with the quality of data used, resulting in a likely margin of error in the range of 10 – 20%.
- “**C**” Many issues with the quality of the data as well as some question regarding the coverage of the data, resulting in a likely margin of error in the range of 20 – 40%.
- “**D**” Serious issues with the data and coverage of the data, resulting in a likely margin of error in the range of 40 – 80%.
- “**F**” No meaningful estimate can be provided due to issues with the quality and coverage of the data.

In addition to the estimate value itself, the percentage of the estimate to the total tax reported on the returns is also presented, as a means of judging the relative size of the estimate. The total revenue values reported on each table will differ from the tax revenue values presented in the annual budget, as the annual budget reports tax revenues on a cash basis, while these values are on an accrual basis. As the tax expenditure estimates themselves are determined on an accrual basis, this is the more appropriate basis of comparison.

Lastly, it is important to note that in general, based on the quality of the available data, the most reliable tax expenditure estimates are for the trade taxes followed by the SCT, GCT, Income Tax (CIT and PIT) and Education Tax in rank order.

Appendix 3

Rationale for Presenting Tax Expenditure Estimates on a Calendar Year Basis

As mentioned earlier, the tax expenditure estimates for Jamaica were computed for the period 2007-2009. It is important to note that the respective years are calendar years and not fiscal years. The major rationale for presenting tax expenditure estimates on a calendar year basis is as follows: Firstly, in Jamaica, taxpayers typically file their returns on a calendar year basis and as such, the tax returns data are based on calendar years (rather than fiscal years). Secondly (and equally important), as reiterated by international tax expenditure consultant Eric Hutton, tax expenditure estimates are not cash expenditures but rather accrual based estimates of potential foregone revenues. This is essentially in line with the international best practice of computing tax expenditure estimates. In fact, because tax expenditure estimates are accrual based (and not cash based), it is illogical to report them on a fiscal year basis, as the fiscal year is essentially a cash construct. Moreover, when reporting on an accrual basis, it is only rational to present the numbers on a tax year or calendar year basis, as this is the period in which the amounts were accrued.

Finally, it is important to note that for the near future, ideally the tax expenditure estimates should not be tabled simultaneously with the regular budget i.e. during April of each year. This is partly because the estimates in the regular budget are prepared on a cash basis (i.e. unlike the tax expenditure estimates, which are measured on an accrual basis). Furthermore, there are two other key reasons most countries do this counter cyclical to the regular budget reporting cycle. For one, the timing of the regular budget report is usually around the end of the tax reporting year, so that changes to the tax code can be adopted by companies early in the new tax year, while the tax expenditure estimates have to be timed to be computed sometime after the tax forms have been filed and processed (which is usually a half year or so after the end of the tax year). The other reason for tabling tax expenditure estimates at a different time from the regular budget is to facilitate proper human resource management. This is because the persons computing the tax expenditure estimates are often the same staff members who have to work on the revenue estimates for the budget, so the work-flow is better managed by spreading these two functions out across the year.

In view of the above, it is strongly recommended that tax expenditure estimates should be presented annually (in the Jamaican context) during the month of October (at the earliest) based on the time span that would allow for the availability of reliable tax returns data. To the best of our knowledge, it is not unusual to find that it is normally at the end of August in each year that most of the tax returns would have been filed locally. Reliable estimates would only be available for the latest calendar year for which dependable tax returns data are available (as well as for the two previous years for which revised tax expenditure estimates would have to be computed since additional returns would have been filed by taxpayers) i.e. since many taxpayers usually file very late locally so it would be very misleading if one computed the estimates based on data requested from *Fiscal Services Ltd*. before the end of August annually. In sum, for practical purposes, the annual tax expenditure statement should not be presented at the same time as the regular budget in the long-term.

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