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Tax reform for fiscal sustainability and social development in Jamaica

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Abstract

The creation of the Tax Administration of Jamaica (TAJ) and the reduction of tax expenditures have improved Jamaica's tax collection and progressiveness. Tax revenue as a percentage of GDP has increased in recent decades and is above the regional average. However, the country's tax system still has low levels of revenue collection relative to public expenditure needs. The informal economy, the high tax-free threshold and tax expenditures, and the progressiveness of the tax structure explain the limitations of the tax system and present problems that need to be addressed. In this paper, we propose a review of the limitations of Jamaica's national tax system and explore potential reforms, such as expanding the narrow tax base, increasing the GCT, reducing the CIT employment tax credits and increasing the NIS contributions. However, because the political economy of tax reform is as important as the reform itself, we include scenarios that balance the potential revenue and progressiveness gains with the political costs of such an endeavor. The two proposed reform packages are intended to help policymakers identify potential ways to improve tax collection

Aviso Legal:

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Introduction

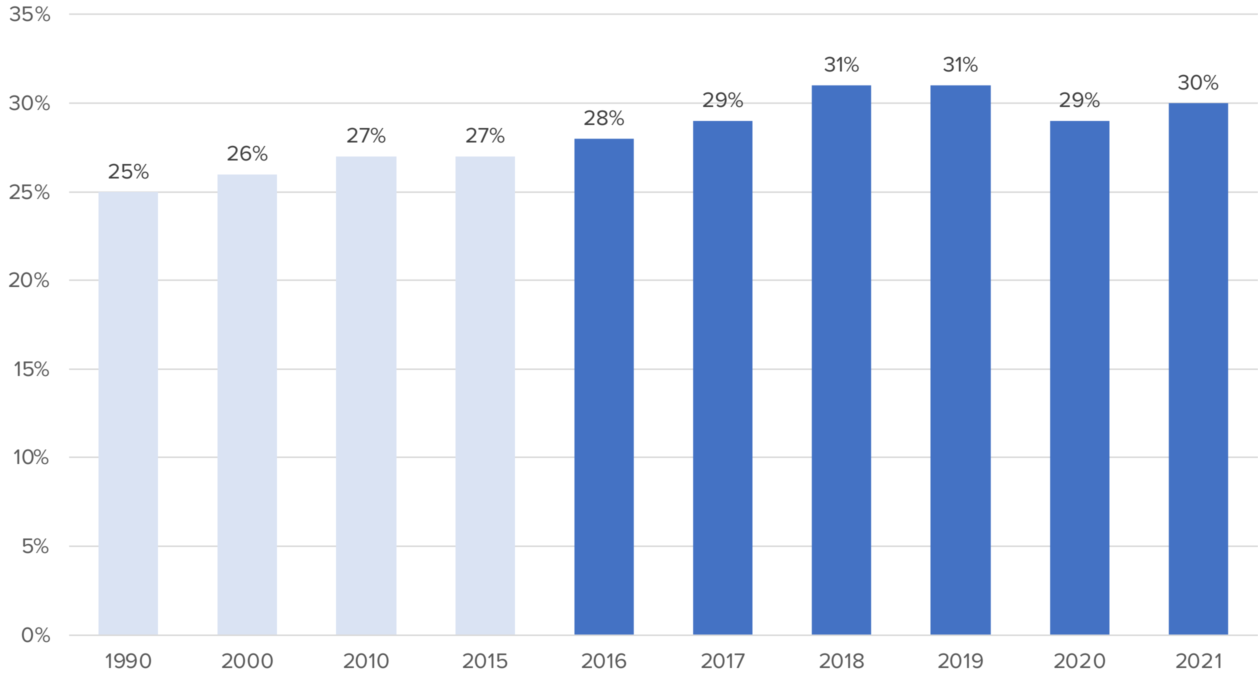
Jamaica's tax system has experienced a series of reforms in the last decade that have improved collection and progressiveness. The creation of the Tax Administration of Jamaica (TAJ) and the significant reduction in tax expenditures illustrate the type of transformation the country went through. As a result, the tax-to-GDP ratio went from 23 percent in 2011 to 27.45 percent in 2019. In this context, the COVID-19 pandemic has affected revenues and forced the government to modify some tax rates to counteract the economic impact, but Jamaica has maintained its fiscal discipline.[1] Nevertheless, the Jamaican tax system still has problems related to the level of collection in relation to public spending needs, challenges in the collection and regressivity of the burden.

The principal revenue authority in Jamaica is the TAJ, a semi-autonomous institution founded in 2011 as a result of the Tax Administration Reform Project of 2009. It was created to improve service delivery, efficiency and effectiveness; simplify administrative and business processes; enhance communication and information channels; improve voluntary tax compliance; and increase tax collection. The TAJ, which reports to the Ministry of Finance and has the responsibility for collecting most taxes, consolidated three institutions: the Inland Revenue Department (IRD), the Taxpayer Audit and Assessment Department (TAAD) and the Tax Administration Services Department (TASD).[2] The other institution tasked with collecting taxes is the Jamaica Customs Agency, which is responsible for administering taxes at the ports of entry as well as trade facilitation. Additionally, a Revenue Appeals Division of the Ministry of Finance processes appeals to decisions made by TAJ.

As can be seen in Figure 1, tax revenue in Jamaica as a percentage of GDP has grown in recent decades and is above the average for Latin America and the Caribbean. This increase has coincided with both the creation of the TAJ and the coordinated work with the International Monetary Fund (IMF) under structural agreements, which has allowed the country to significantly improve its government finances and reduce its external debt.

1 Mera, M. (2020). Social and economic impact of the COVID-19 and policy options in Jamaica. UNDP LAC C19 PDS No. 8. May 2020.
2 Tax Administration Jamaica (TAJ) jis.gov.jm

Figure 1. Tax revenue (as a percentage of GDP)



Source: IMF

The most significant source of revenue in Jamaica is the general consumption tax (GCT), a value added tax on most goods that is responsible for almost one-third of all tax collection (Table 1). Another important source of revenue comes from the special consumption tax (SCT), imposed at various rates on the importation or local manufacture of certain prescribed goods including some petroleum products, ethanol, alcoholic drinks, tobacco and motor vehicles. The SCT is responsible for more than a quarter of tax income. The corporate income tax (CIT) placed on the profits of resident corporations is also significant, with more than 11 percent of tax income. Finally, the personal income tax (PIT) represents approximately 11.5 percent of the total tax revenues, and social security contributions (SSCs) are around 4 percent. Together, these five taxes are responsible for more than 85 percent of Jamaica's tax collection.

Table 1. Tax collection in Jamaica, 2019

Tax	Percentage of GDP	Percentage of Total Taxes
Taxes on income, profits and capital gains	8.49%	30.94%
Of individuals	3.16%	11.50%
On income and profits	3.16%	11.50%
Pay As You Earn (PAYE)	2.90%	10.57%
Other individuals	0.26%	0.93%
Corporate	3.08%	11.22%
On profits	3.08%	11.22%
Other companies	3.06%	11.16%
Minimum business tax	0.02%	0.06%
Unallocatable	2.25%	8.21%
Tax on dividends	0.11%	0.39%
Tax on interests	0.72%	2.63%
Education tax	1.43%	5.19%
Social security contributions	1.12%	4.08%
Taxes on property	0.87%	3.17%
Recurrent taxes on immovable property	0.41%	1.50%
Households – Municipal property tax	0.41%	1.50%
Taxes on financial and capital transactions	0.46%	1.68%
Taxes on goods and services	16.87%	61.45%
Taxes on production, sale, transfer, etc.	16.56%	60.31%
General taxes on goods and services	9.26%	33.74%
Value added taxes	9.07%	33.05%
Other – Environmental levy	0.19%	0.69%
Taxes on specific goods and services	7.29%	26.57%
Excises	3.68%	13.40%
Customs and import duties	2.04%	7.44%
Taxes on specific services	1.57%	5.73%
Taxes on use of goods and to perform activities	0.31%	1.14%
Recurrent taxes	0.31%	1.14%
Paid by households: motor vehicles	0.22%	0.81%
Paid in respect of other goods	0.09%	0.34%
Other taxes	0.10%	0.36%
Other – Contractors levy	0.10%	0.36%
Total tax revenue	27.45%	100.00%

Source: OECD

Even with the significant transformation implemented by the government, there is still room for improvement both in terms of revenues and the progressiveness of the system. With that objective as a reference, this paper proposes to review the problems of the Jamaican national tax system and explore potential reforms. The first section identifies the main sources of inefficiency (i.e. distortions in economic activity, inefficiency in the tax collection process) and injustice (failures in the principle of progressivity and horizontal equity) in the system. Based on this analysis, the second section proposes desirable reform directions to mitigate the problems identified. In each proposal, the possible effects on the revenue collection are quantified, and the efficiency and justice impacts are evaluated. In addition, we discuss the social and political difficulties of implementing these reforms, suggesting possible ways to maximize their political feasibility. Finally, the third section proposes two possible reform packages, where a selection is made from the list of options to propose a path that maximizes feasibility and a path that maximizes progressivity.

1. Challenges within the current tax system in Jamaica

1.1 General consumption tax

The general consumption tax (GCT) is a value added tax (VAT) established in 1991 that has grown to be the most important source of tax revenue in Jamaica, reaching one-third of tax revenue in 2019. The current standard rate is 15 percent with some exceptions, including a 5 percent surcharge for most imported commercial goods.

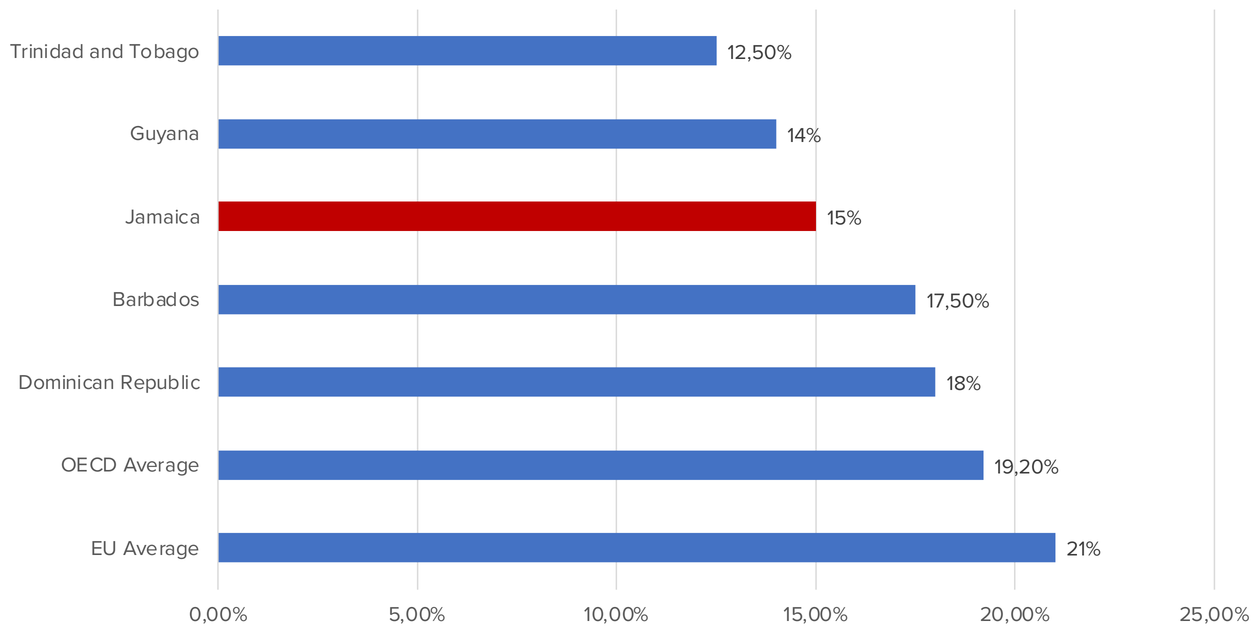
The 15 percent standard rate was reduced from 16.5 percent in 2020 in the hopes of boosting the economy during the COVID-19 pandemic. The impact of this 1.5-percent reduction in the standard GCT rate is estimated to have reduced revenues by 0.7 percent of GDP.[3] The evidence indicates that these types of temporary reductions can be an effective measure to boost consumption in the short term, but their effect reduces over time. Meanwhile, the effects of the temporary reduction on new private investments are not significant.[4]

The current standard rate of 15 percent, while within the range of other Caribbean countries, is still well below international averages (see Figure 2). This leaves open the possibility of increasing the rate to increase government revenue.

3 IMF Country Report No. 22/44 Jamaica, Selected Issues. www.imf.org/-/media/Files/Publications/CR/2022/English/1JAMEA2022002.ashx

4 See Clemens, M. and Roeger, W. (2021). Temporary VAT Reduction during the Lockdown (May 2021). DIW Berlin Discussion Paper No. 1944, Available at SSRN: dx.doi.org/10.2139/ssrn.3847765

Figure 2. VAT standard rates for selected countries and regions, 2022



Source: Authors' calculations based on official government data

Value added taxes such as the GCT are widely regarded as efficient,[5] although some inefficiencies exist, especially in the face of exemptions and rate differentials such as those present in Jamaica (see Table 2). For instance, the lower GCT rate for hotels and other tourism services presumably aims to boost the industry by increasing demand for such services. This should have the effect of increasing the industry's demand for low-skill workers and pushing up their wages so that employment becomes a more attractive option than unemployment. However, simulations of similar rate reductions with data from the EU indicate that the overall impact of differential rates on demand for low-skill workers is unimpressive because differences in low-skill employment between industries are limited.[6] Thus, the exemptions for hotels and tourism services are likely to bring only marginal benefits to the industry, with significant costs to taxpayers in terms of lost revenue. A recent estimate calculated the cost of these exemptions to be 0.25 percent of GDP.[7]

5 See Institute for Fiscal Studies and James Mirrlees (eds.) (2010). Tax by Design: The Mirrlees Review (Oxford: Oxford University Press), chapter 6.

6 Study on reduced VAT applied to goods and services in the Member States of the European Union. ec.europa.eu/taxation_customs/system/files/2016-09/study_reduced_vat.pdf.

7 IMF Country Report No. 22/44. Op. cit.

Table 2. General consumption tax rates and exceptions

GCT Rate	Goods and services
15%	The standard rate for goods and services
25%	Provision of telephone services, including phone cards and handsets
10%	Hotels and other tourism services. However, operators within the tourism industry who were granted approval under legacy tourism incentives and who have not elected to move to the current regime cannot benefit from the 10-percent tourism GCT rate.
+5%	Subject to certain exceptions, an additional advance GCT is levied on the commercial importation of goods by a GCT-registered taxpayer.
0%	Basic food items; prescription drugs; certain medical supplies; certain construction, transportation, financial and insurance services; certain agricultural and fisheries inputs; exported goods and services; and purchases by diplomatic and international organizations and foreign governments.

Source: PWC taxsummaries.pwc.com/jamaica

The impact of value added taxes on equity is a source of controversy in policy circles and something understood to be contextual, depending on both the tax incidence and how it is implemented. But, by design, VATs are inefficient instruments to redistribute income from rich to poor households because governments cannot observe individual expenditures on commodities on which to base their redistributive policies. The country issues the Jamaica Survey of Living Conditions (JSLC) report, which captures household consumption. However, the low periodicity of its implementation limits its use for short-term policy planning.

Jamaica's approach—and that of many other countries—has been to have reduced or zero rates for basic goods that are presumably consumed more by lower-income households, at least as a share of their total consumption. While no recent studies have looked at the specific impact of GCT on Jamaican income distribution, the literature has found mixed results for this approach in similar contexts; while low-income households benefit from reduced prices for these items, governments cannot stop higher-income households from also benefiting.[8] In general, having a standard rate with no exceptions combined with targeted transfer systems is a more efficient and less distortive way to achieve governments' social policy objectives.

Evidence from other countries suggests that, among Jamaica's goods and services with zero-tax rates, basic food items are arguably the ones that more positively impact equity.[9] For the remaining goods and services—prescription drugs, medical supplies, transportation, and financial and insurance services—evidence from other countries is mixed or negative. But regardless of the exact benefits, these are not without cost; zero tax rates on food items and health care cost 0.21 percent of GDP.[10]

8 For a discussion, see Institute for Fiscal Studies and James Mirrlees (eds.) (2010). Tax by Design: The Mirrlees Review (Oxford: Oxford University Press), chapter 7.

9 Study on reduced VAT applied to goods and services in the Member States of the European Union. ec.europa.eu/taxation_customs/system/files/2016-09/study_reduced_vat.pdf.

10 IMF Country Report No. 22/44. Op. cit.

1.2 Corporate income tax

The corporate income tax (CIT) is a direct tax that falls on all resident companies on their worldwide income.[11] Its importance in generating government revenue has fallen in relative terms in the past decades, but it is still significant as it represented more than 11 percent of tax revenue in 2019. Since 2013 the standard rate for the CIT is 25 percent; however, there are different rates for some industries, notably companies regulated by the government (see Table 3).

Table 3. CIT rates by type of company

Classification	Definition	CIT Rate (%)
Regulated company	A company that is regulated by the Bank of Jamaica (other than building societies), the Financial Services Commission, the Office of Utilities Regulation or the Ministry of Finance.	$33^{1/3}$
Building society	A society incorporated under the Building Societies Act.	30
Life assurance companies	A company that provides life assurance servicies	25
Unregulated company	A company which is not regulated by any such body registered and operating within Jamaica.	25

Source: Authors, based on PWC taxsummaries.pwc.com/jamaica

As economies have become more complex and internationally integrated, CIT collection around the world has become more challenging. Additionally, in the context of a mostly uncoordinated global tax architecture, these common challenges are derived mostly from the difficulties of establishing where exactly income has been earned and which jurisdiction should collect taxes.[12] This is one of the reasons for the worldwide trend towards indirect taxes such as VAT.

In Jamaica additional challenges have derived from special rules that apply to different taxpayers, depending on their industry or other characteristics. In general, the size of this problem has fallen. While tax expenditures reached 9 pp of the GDP in 2008, they had fallen to 2 pp of the GDP by 2019. But there are still several deductions and exceptions that add to the challenges of collecting taxes and have distortionary effects on the economy (see Table 4 for a list).

11 Non-resident companies are also subject to tax on Jamaican-sourced income.
12 For a recent discussion, see Corporate Income Taxes Under Pressure: Why reform is needed and how it could be designed, Ruud De Mooij, Alexander Klemm and Victoria Perry. IMF 2021.

Table 4. Notable deductions and exemptions to CIT tax returns

Classification	Deductions and exemptions
New investments	Simplified capital allowances and tax depreciation rates aligned with the economic life of assets.
Tourism industry	Enterprises can either retain exemptions under the previous incentives regime (Hotels [Incentives] Act) or move to the new regime. Grandfathered companies face GCT at a standard rate (rather than a reduced GCT rate for tourism of 10 percent) until their current set of incentives ends.
All industries	Employment tax credit for all statutory payroll levies (education tax, National Housing Trust, National Insurance and Human Employment and Resource Training contributions) capped at 30 percent of the chargeable income tax.
All industries	The Large-Scale Projects and Pioneer Industries Act permits the minister to grant unspecified tax concessions to qualifying investment projects up to 0.25 pp of GDP per year.
Specific organizations	Exemption from payment, waivers. Charitable, religious, scientific and educational organizations.
Selected industries	Income and incentives on capital expenditure to an approved organization in a special development area.

Source: Authors, based on taxsummaries.pwc.com/jamaica

The most significant deduction is the employment tax credit for all statutory payroll levies, capped at 30 percent of the chargeable income tax. In practice, this reduces the actual CIT tax rate that most companies face, down to 17.5 percent. In essence, the deduction works to increase the returns of labour vis-à-vis capital investments, distorting capital allocation decisions within and across sectors, and potentially affecting economic growth. The effects of the deduction on equity are mixed. While it promotes job creation, it is unclear which types of jobs it benefits the most, while the lost income is made up by other potentially regressive taxes. The cost of this deduction is significant, up to 1.3 percent of GDP.

The number and amount of tax waivers has gone down significantly in recent years. This is the result of new rules that govern how and when these could be applied, as well as instituting a cap on the total possible outlays. Today, discretionary tax waivers are only used for charitable causes and are capped at J$120 million annually (less than 0.01 percent of GDP).[13] This is good news for both tax efficiency and justice, as the beneficiaries of those waivers ultimately tended to be relatively wealthy company shareholders.

The tourism industry exceptions have also changed in recent years, with a new system substituting the old set of incentives. The old regime included a 10-year relief from GCT; income tax; and import duty for new hotels, those undergoing expansions and significant alterations, as well as slightly smaller but still significant incentives for similar efforts by cottage resorts and tourist attractions.[14] The new regime grants access to a reduced 10-percent GCT rate. However, companies that had the old set of incentives have been grandfathered in and have not been forced to change to the new scheme until the old set of incentives ends.

Another recent reform is the development of special economic zones (SEZs) under the Special Economic Zones Act of 2016. The set of incentives for companies operating within these zones is significant and includes a CIT headline rate of 12.5 percent (possible effective rate of 7.5 percent with the approval of additional tax credits); relief from income tax on rental income GCT relief (zero-rate) for goods and services entering for use in the zone; promotional tax credit for expenditures on R&D and training; customs duty relief on items imported into the zone; reduced payment of stamp duties; and relief from transfer tax on the sale of land

13 IMF Country Report No. 22/44. Op. cit.
14 Valid as recently as 2016. Information gathered from Jamaica's Ministry of Tourism website www.mot.gov.jmz.

by the developer for use in the development of operations in the zone.[15] Prioritized industries include food manufacturing and agrotechnology; logistics and supply chain management; pharmaceuticals; the global services sector; creative industries and new digital media; automotive, biotechnology, electronics and digital ICT equipment and services; beauty care; and medical devices.

While there is no specific evidence on the impact of Jamaican SEZs, evidence from other countries shows that benefits from SEZs strongly depend on the context and have been generally exaggerated. For instance, firm productivity has frequently increased but more from the results of agglomeration than tax incentives[16],[17] and with limited spillovers beyond the immediate areas surrounding the zones.[18] Moreover, SEZs create uneven playing fields, as firms from the same industry can face different tax burdens, affecting competition and economic growth.[19] Furthermore, while some socio-economic gains have been found, including increasing female employment rates and declining income inequality in SEZ host districts, a study found evidence of rising high school dropout rates in districts with a higher concentration of SEZs. Despite positive spillovers of SEZ programmes on female employment and income inequality, evidence on aggregated formal employment and wage levels was limited.[20] More than discouraging them completely, the message from the literature seems to be that considerable tax incentives for SEZs, such as those in Jamaica, are not always warranted given the cost to taxpayers, the limited social benefits and the economic distortions they create.

1.3 Payroll taxes

Payroll taxes are composed of contributions from four specific programmes: the National Insurance Scheme (NIS), the National Housing Trust (NHT), the Education Tax and the Human Employment and Resource Training Trust (HEART). All contributions are deducted from the gross salary, except for the Education Tax, which is estimated based on gross income minus NIS and any payment to an approved pension fund. In addition to these programmes and schemes, workers pay Payroll Income Tax (PIT) on the estimated statutory income above a J$1.5 million threshold. Table 5 summarizes contribution rates and their distribution among employees, employers and self-employed workers.

When all rates are calculated as a percentage of gross pay (Education Tax is calculated over statutory income), contributions represent 17 percent. Out of this total, 8 pp are contributory programmes that finance direct benefits for the worker, while 9 pp finance other government programmes. This, naturally, has an impact on economic efficiency as the cross-subsidies become a barrier and a disincentive to formality and helps explain why informality is high in Jamaica. As discussed below, social security contributions (SSCs) are low in Jamaica, but the extra cost of programmes distorts payroll taxes and complicates the rise of contributory benefit rates.[21]

15 Summary from the Jamaica Special Economic Zone Authority website www.jseza.com, based on the Special Economic Zones Act of 2016 and other relevant legislation.

16 For one example, see Aritenang, A. and Chandramidi, A (2020). The Impact of Special Economic Zones and Government Intervention on Firm Productivity: The Case of Batam, Indonesia, Bulletin of Indonesian Economic Studies, 56:2, 225–249, DOI: 10.1080/00074918.2019.1643005

17 Another example is Li, X., Wu, X. and Ying, Tan, Y. (2021). “Impact of special economic zones on firm performance” Research in International Business and Finance, Volume 58, December 2021, 101463.

18 Frick, S. and Rodríguez-Pose, A. (2019). “Impact of special economic zones on firm performance” in Transnational Corporations Volume 26, 2019, Number 2, UNCTAD.

19 Hertel, T. W., and Winters, L. A. (2010). Special economic zones: Performance, lessons learned, and implications for zone development. World Development, 38(5), 667–682.

20 Socio-Economic Spillovers from Special Economic Zones: Evidence from Cambodia (August 2020). IMF Working Paper No. 20/170, Available at SSRN: ssrn.com/abstract=3721194

21 For an in-depth discussion on this issue, see Mera, M. (2021). Social Protection in Jamaica: Strengths and Limitations of its Redistributive Mechanisms. UNDP LAC Working Paper No. 20. Background Paper for the UNDP LAC Regional Human Development Report 2021.

Table 5. Contributions by wage/salary workers and self-employed workers

Payroll Tax	Paid Employment		Self-employed workers
	Employee	Employer	
National Insurance Scheme (NIS)	3.0%	3.0%	6.0%
National Housing Trust (NHT)	2.0%	3.0%	3.0%
Education Tax	2.25%	3.5%	2.00%
Human Employment and Resource Training Trust (HEART)	-	3.0%	-
Personal Income Tax (PIT) over J$1.5M or 6M	25%/30%		25%/30%

Source: Tax Administration Jamaica (TAJ)

1.3.1 National Insurance Scheme (NIS)

The NIS was established in 1966 and is a contributory, defined-benefit pension system. It provides benefits for retirement, disability, orphans, widows and widowers, work accidents and death, as well as dependent and spouse allowance, maternity allowance, funeral grants and health benefits. The NIS is mandatory for all workers, and the non-working population can also make voluntary contributions. The contribution rate is 6 percent, comprising 3 percent from employees and 3 percent from employers applied to gross earnings, with an insurable wage ceiling of J$5 million since 2022.[22] Out of the 6 percent collected for the NIS, 1 percent is allocated to the National Health Fund (NHF), making the real rate 5 percent.

While the fiscal pressure in Jamaica is a bit above the Latin America and the Caribbean (LAC) average, the SSC component is low compared to the region. When we look at the SSC tax revenue to GDP, Jamaica has an average of 0.9 percent[23] while the LAC average is 3.7 percent and OECD countries is 9.1 percent.[24],[25] Correspondingly, NIS contributions are low compared to different benchmarks. The 6-percent contribution rate (or effective 5 percent) is below the Caribbean average rate of 10.2 percent, the Latin America average rate of 12.1 percent[26] and the even higher OECD effective contribution rate for public schemes of 15.4 percent.[27] The consensus is therefore that contributions have room for increase. Government analysis has pointed to this problem, highlighting that the NIS will become a deficit programme within the next 10 years.[28]

22 Ministry of Labour and Social Security (MLSS) (2020). Retrieved from www.mlss.gov.jm.
23 Ministry of Finance and Public Service. Retrieved from mof.gov.jm
24 OECD, Inter-American Development Bank, Inter-American Center of Tax Administrations (2016). Taxing Wages in Latin America and the Caribbean. OECD Publishing read.oecd-ilibrary.org/taxation/taxing-wages-in-latin-america-and-the-caribbean-2016/a-view-on-taxes-social-protection-and-informality-in-latin-america-using-taxing-wages-modelling_9789264262607-4-en#page4
25 Ministry of Finance and Public Service. Retrieved from mof.gov.jm
26 Nassar, K. B., Okwuokei, M. J. C., Li, M., Robinson, T., and Thomas, M. S. (2016). National Insurance Scheme Reforms in the Caribbean. International Monetary Fund.
27 OECD (2021). Pensions at a Glance 2021: OECD and G20 Indicators, OECD Publishing, Paris, doi.org/10.1787/ca401ebd-en.
28 Jamaica Information Service (2016). 2016–2017 Budget Presentation by Prime Minister Most Hon. Andrew Michael Holness. May 24, 2016. Jamaica Information Service. Retrieved from jis.gov.jm/media/Andrew-Michael-Holness-Budget-Presentation-2016.pdf

In parallel to the NIS, Jamaica has a Public Pension Scheme (PPS) for public-sector employees. Under the Public Pension Act, employees with at least 10 years of continuous service may retire under this scheme.[29] The PPS is a very regressive programme because it is mostly financed by public funds, adding up to a total expenditure of 1.4 percent of GDP. Only five years ago most public workers did not contribute to the system. Since then, the contribution rate has gradually increased by one percentage point each year, up to 5 percent in 2022. The estimations show that the current coverage of the contributions is 8 percent of the total PPS expenditures.[30] Nevertheless, given that these are public employees, at the end of the day all financing comes from public funds.

1.3.2 Other payroll taxes

In addition to NIS contributions, Jamaica's payroll taxes include contributions to the NHT, HEART and the Education Tax. These programmes cover a wide range of policies that, unlike the NIS, do not deliver direct benefits to the workers who contribute. Most of the funds collected through these contributions are allocated either to universal programmes such as the NHF or to benefits that include a wider population than the contributors. This makes the benefits cross-subsidies from formal workers to other populations, and while they have the potential of redistribution, they distort payroll taxes and raise the cost of formality.[31]

All in all, these programmes financed partially or totally through payroll taxes harm formal employment. The benefits are aimed at all persons, not just formal workers, therefore it should not be considered contributory programmes. Of the SSCs, 61 percent (2.87 percent of GDP) do not represent a direct benefit to the worker and are cross-subsidies for general programmes.[32] As a result, these programmes distort payroll contributions and limit the margin to increase NIS and progressive taxes such as the PIT.

1.3.3 Personal income tax

Personal income tax (PIT) in Jamaica applies to taxable emoluments over the tax-free threshold of J$1.5 million with a rate of 25 percent, while emoluments more than J$6 million per annum pay a 30-percent rate. Emoluments include Pay As You Earn (PAYE), interest earned, dividends, self-employed and partnership income, and any other income registered by the person. Jamaica's PIT revenues stand at 3.5 percent of GDP, which is higher than the 2 percent average of LAC, but very low compared to the importance of PIT in OECD countries, which average 8.8 percent of GDP.[33],[34] This low level of PIT revenues is explained both by high labour informality and the share of labour income that is below the established threshold. While there are no specific estimates for Jamaica, the non-filing rate for PIT in the region is above 50 percent.[35]

Jamaica has a high level of tax allowance required to begin paying taxes once the tax reliefs on gross wage earnings have been discounted. The wage needed to be subject to PIT obligation in Jamaica is 2.1 times the per capita GDP and 1.0 times the average wage.[36] In Latin America, tax allowances are on average 1.32 times

29 Details of all the possible situations that allow for retirement can be found in the Accountant's General Department's website www.treasury.gov.jm/service/pension-administration/#1234567
30 Ministry of Finance and Public Service. Retrieved from mof.gov.jm/budget/revenue-estimates
31 Ibidem.
32 For a detailed analysis, see Mera, M (2021). Op. cit.
33 OECD, Inter-American Development Bank, Inter-American Center of Tax Administrations (2016). Op. cit.
34 Ministry of Finance and Public Service (MOFPS) (2020). Retrieved from mof.gov.jm
35 Smart, S. (2018). In Search of the Most Efficient Tax for Jamaica, Caribbean Policy Research Institute.
36 Authors' calculations based on Statistical Institute of Jamaica (STATIN). Retrieved from statinja.gov.jm; Eckler Consultants (2018). Actuarial Review of the National Insurance Scheme as at 2016 March 31. Kingston.

the per capita GDP and 0.99 times the average wage while those ratios are 0.12 for OECD countries and 0.7 for middle-income countries.[37]

Jamaica's standard tax allowances are high enough to offset any PIT liability for most of the registered workers, except for those in deciles 8 and 9 of the distribution. There is no consistent data on wage distribution in Jamaica, but based on the contributors' data provided by the NIS, it is estimated that only 20 percent of workers earn more than the current threshold and that the average annual wage of this group is just over J$3 million per annum.[38] In this scenario, an increase in PIT has the potential for revenue-raising as well as increasing its redistributive power.

Research points out that GCTs are more growth-friendly than PIT, but adverse growth effects could be mitigated with proper tax design and enforcement, like in many OECD countries.[39] While indirect taxes are better to pursue efficiency goals, direct taxation is best for attaining progressivity.[40] Thus, in a region with high inequality, improving equity is a relevant feature of reform. Moreover, it could be argued that for the most part informality in Jamaica is not necessarily a cost-related issue, but an enforcement issue. Therefore, informality could be inelastic to increases in PIT or NIS as the enterprises currently complying will have difficulties moving to informality due to current effective controls in those specific industries, as described below. In addition to taxation, progressivity can also be sought through changes in public expenditures.

1.4 The narrow tax base and high levels of evasion

Informality in Jamaica represents approximately 60 percent of total employment.[41] This feature of the labour market narrows the base for payroll taxes and affects revenues. Broadening the tax base is therefore a primary problem, as currently the tax burden disproportionately affects registered workers and limits the potential revenue power.

The highest levels of compliance with registration are found in sectors where the company or organization tends to be larger and where evasion is very difficult (e.g. financial, electricity, gas, water, etc.). On the contrary, there is more informality where economic processes are carried out by smaller firms or individuals, and where enforcement is much weaker or non-existent (e.g. agriculture, domestic work, construction, wholesale) (Figure 3). In addition, a key problem is found among self-employed workers. These workers comprise around 35 percent of the labour force (STATIN) and have very high levels of informality.[42] While the data on informal self-employment is not easy to access, some estimations put informality close to 88 percent in this category.[43]

37 Barreix, A., Benítez, J. C., and Pecho, M. (2017). Revisiting personal income tax in Latin America: Evolution and impact. Working Paper No. 338, OECD.

38 Acosta-Ormaechea, S., Pienknagura, S., and Pizzinelli, C. (2022). Tax Policy for Inclusive Growth in Latin America and the Caribbean. WP/22/8. International Monetary Fund.

39 Ibidem

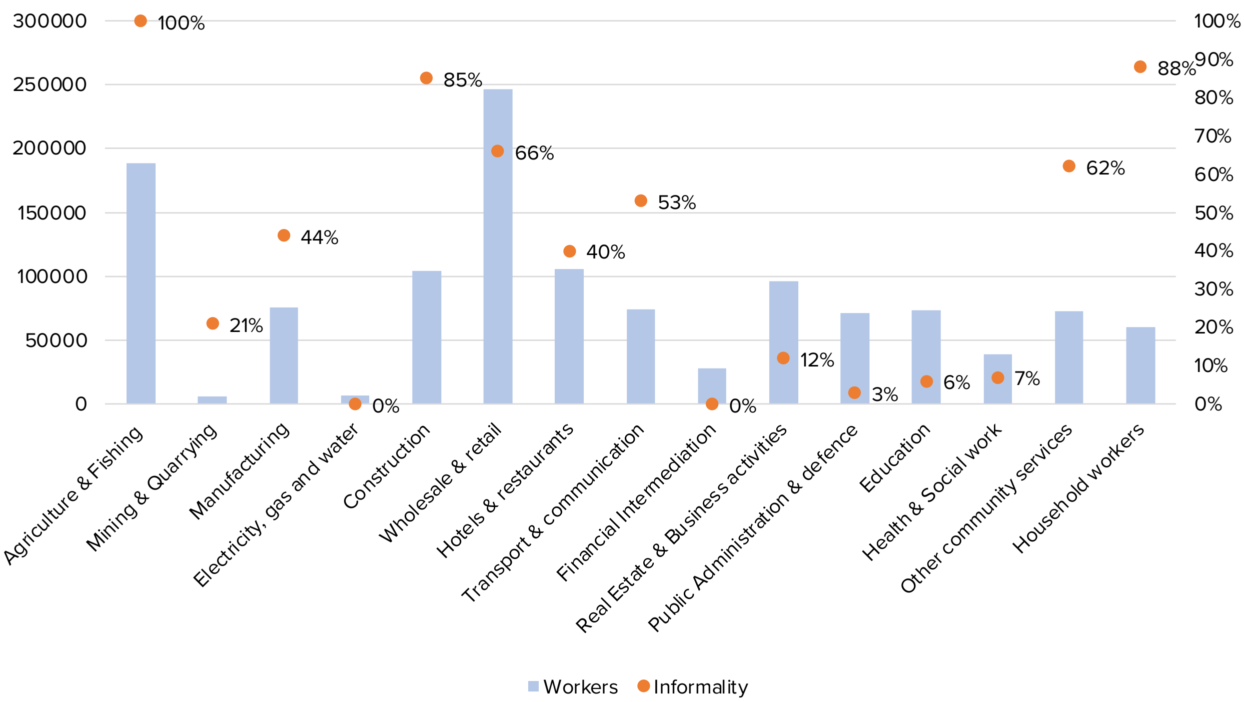
40 Acosta-Ormaechea et al. (2022). Op. cit.

41 This document considers as informal workers any worker not contributing to the NIS. This approach is different from the Statistical Institute of Jamaica that excludes from the definition non-agriculture activities and household workers. The methodological decision is to look at compliance with the law regardless of the worker's occupation.

42 MICAF (2018) Op. cit.

43 IDB (2006). Informal Sector in Jamaica. Inter-American Development Bank. New York.

Figure 3. The number of workers and informality (percentage), by industry



Source: Authors' calculations based on STATIN (2018)

Note: Informality in Agriculture and Fishing is not available. It is expressed at 100 percent because STATIN does not include the sector as part of formal employment.

Official reports estimate that 80 percent of jobs in Jamaica are in micro, small and medium enterprises (MSMEs),[44] but the majority are created by sole proprietorships, as nearly 35 percent of working Jamaicans are self-employed, and only 7.8 percent of them create jobs for others.[45] The available data also shows that only between 36 percent and 44 percent of MSMEs meet the registration requirements.[46]

These two key pieces of information point to the need for solutions for the registration of microenterprises and self-employed workers. Any successful solution for formalizing these sectors will have a defined impact on the current narrow base for taxation. For example, the creation of special systems for self-employed workers and microenterprises could acknowledge the different realities and needs of the economy and the labour market. Strategies such as Monotax or tax credit schemes may gradually phase out at higher income levels.

It is important to highlight that special systems may generate negative incentives for enterprises. It can foster low-productivity firms that would see growth as potentially unprofitable because moving over the threshold

44 MSME classification is based on total annual turnover and employment. Microenterprises have sales less than J$ 15 million and employ fewer than five workers. Small enterprises have sales between J$ 15 million and J$ 75 million and employ between 5 and 20 workers, while medium enterprises have sales between J$ 75 million and J$ 425 million and employ between 21 and 50 workers. Ministry of Industry, Commerce, Agriculture, and Fisheries (MICAF]) (2018). Micro, Small & Medium Enterprises (MSME) & Entrepreneurship Policy. Ministry of Industry, Commerce, Agriculture, and Fisheries. Government of Jamaica.

45 MICAF (2018). Op. cit.

46 IDB (2006). Op. cit.; MICAF (2018) Op. cit.

could increase labour costs and increase the tax burden. This effect depends on the size of the thresholds and the differences in tax rates between regimes.[47] An alternative to avoid such negative incentives is to reorganize Jamaica's tax system through a holistic approach, reducing the taxation of high-productivity sectors and taxing high-income individuals, and subsidizing low-income sectors. This will be addressed further in the following sections.

2. Available reforms and predicted impacts

Building on the previous analysis, this section presents a series of potential reforms of the Jamaican tax structure to increase revenues while taking into account their impact on economic efficiency and progressiveness. Different scenarios are proposed to estimate the short-term impact of such changes. They represent a tax incidence analysis that does not consider second-round behavioural effects, that is, how a change in one tax can affect consumption and saving decisions that affect the revenues of other taxes. But given the exploratory nature of this document, this shortcoming does not diminish the relevance of the discussion, nor the potential effects of the reforms proposed.

2.1 Reform 1 - Increase the standard general consumption tax (GCT) rate and eliminate exemptions

A relatively straightforward way of increasing tax revenues is to roll back the GCT rate reduction of 1.5 percent from 2020 and increase the GCT rate back to 16.5 percent. As the negative effects of the COVID-19 pandemic—especially the decline of tourism—have subsided, a rate increase is justified and is possibly one of the most politically palatable ways to increase government revenue. Given the IMF's estimation that the rate decrease led to a fall in tax revenues equal to 0.7 percent of GDP, one can expect an equivalent increase when rolling back the reduction.

If the government's goal was to increase tax revenues further, it must consider an even higher increase in the GCT rate. As has been discussed, the GCT is the most important current source of tax revenue for Jamaica. Thus, even a small increase in the tax rate could bring significant new revenues to the government. It is difficult to estimate exactly the amount that could be raised without the use of a proper general equilibrium model, but given IMF estimates and assuming a relatively inelastic consumption, we could expect an increase in tax revenues of between 0.4 percent and 0.5 percent of GDP for every percentage point increase beyond current levels. There are few other quick wins available that are likely to generate tax revenue as significant as this.

While a rate increase that brings the GCT beyond historical levels could seem aggressive, there is arguably still 'space' for an increase, as GCT rates in Jamaica are below regional and world averages. For instance, setting a rate similar to Dominican Republic (18 percent) could generate an additional 0.6 percent–0.75 percent of GDP in tax revenues, and setting it close to the OECD average (say at 19.5 percent) could generate a further 1.2 percent–1.5 percent of GDP, while setting it close to the world average (21 percent) could generate 1.8 percent to 2.25 percent of GDP.

Of course, significantly increasing the GCT rate could make Jamaica more dependent on this tax and cement the trend towards indirect taxes. But there are good reasons to support this path. First, the GCT is relatively efficient and easy to collect, compared to other taxes. Second, the GCT in Jamaica has been growth-friendly,

47 Levy, S. and Cruces, G. (2021). Op. cit.

meaning that an increase in GDP has led to more than proportionate increases in GCT revenues.[48] This promotes stability in the tax system, as the need for further increases is reduced.

But there are potential downsides to an increase in the GCT rate. First and foremost an expected price increase would be unpopular, and easily attributable to the reform given the ubiquity of the tax in Jamaicans' daily lives. Second, there is some evidence that as rates increase, there are greater incentives to evade taxes within some industries, such as some personal and online services, that tax authorities may have difficulty seeing.[49] Thirdly, as has been discussed, indirect taxes are generally more regressive by design than direct taxes, which makes the potential impact of the reform negative on progressiveness.

Equity should also be a consideration when considering the elimination of GCT zero rates for basic food items and health care. Such a change would bring unquestionable benefits, starting with an estimated 0.21 percent of GDP in additional tax revenues. The reform also has the potential to reduce price distortions and tax compliance, given the many and fluid numbers of items included in the basket, and it would eliminate the regressive nature of a tax break enjoyed by all households, but disproportionately by those with higher income. But the reform could also negatively affect income distribution. The solution other countries have found successful is developing targeted transfer systems, to directly compensate lower-income households and leave them better off. These targeted transfer systems can take a variety of forms, such as cash transfers (conditional and unconditional) or vouchers (cash or goods). The key is targeting, including those who need it (low exclusion error) and avoiding those who don't need it (low inclusion error). In Jamaica, PATH could function as such a targeted transfer system, provided it's coverage is expanded.

Finally, eliminating GCT rate reductions could also have the potential to increase government revenues and reduce economic distortions and inefficiencies. In particular, eliminating the reduced rate of 10 percent for hotels and tourism services could have an estimated impact of an additional 0.25 percent of GDP in tax revenues, assuming demand does not fall off as a result of the probable price increase. It would also improve asset allocation among all sectors of the economy and simplify tax compliance. Arguably, there is a reputational cost for the government to eliminate this exemption as many long-term investments have been made considering the sector's special tax regime, but one way to diminish them could be to set a scaled reduction over time—for instance, a reduction of 1 percent per year for five years.

48 Buoyancy rates have been greater than 1.
49 Smith, J. and Jones, L. (2019). Tax evasion in personal and online services: Evidence from a survey of small business owners. Journal of Taxation, 45(2), 78–93.

Table 6. Reform 1 - Predicted impacts and challenges

Reform	Projected increased revenue (% of GDP)	Predicted political cost	Impact on economic efficiency	Impact on progres-siveness
Roll back pandemic GCT rate decrease	0.7	Low	Neutral	Slightly negative
Increase the GCT rate to 18%	0.6–0.75	Medium	Neutral	Slightly negative
Increase the GCT rate to 19.5%	1.2–1.5	Medium-High	Neutral	Slightly negative
Increase the GCT rate to 21%	1.8–2.25	Medium-High	Neutral	Slightly negative
Eliminate GCT exemptions - basic food and health	0.21	High	Positive	Depends
Eliminate GCT exemptions - tourism	0.25	Medium-High	Positive	Positive

Source: Authors' calculations and opinions, based on IMF (2022)

2.2 Reform 2 - Reduce and simplify corporate income tax exemptions and deductions

While a lot has been done in recent years to improve the efficiency of the CIT, options are still available to reduce distortions and raise additional tax revenue. One such reform is to decrease the limits for the employment tax credit, currently at 30 percent. This reform could raise an estimated 0.22 percent of GDP in additional tax revenues for every 5 percent decrease in the maximum deduction of the employment tax credit, reaching up to 1.32 percent of GDP if eliminated (see Table 7).

However, this potential reform could lead to a reduction in formal employment in the short term and decreased incentives for companies to comply, negatively affecting overall tax collection in the medium term. Furthermore, political costs for such a reform could be important, especially for more labour-intensive industries and their employees, especially if the change is significant. All these considerations likely make this reform less attractive than other potential reforms discussed in this document, but still worth considering given short-term fiscal revenue maximization goals.

As for other deductions and exemptions related to the CIT, the potential to increase revenues is relatively limited, given recent tax reforms. For instance, as mentioned before, the package of incentives that the tourism industry received, including relief from CIT contingent on investments in new hotels, expansions or alterations, was substituted with a standard reduction in the GCT rate. However, as was discussed, companies that had the old set of incentives have been grandfathered in and many still receive these incentives until they run out. Therefore, forcing these companies to move to the new regime still represents an—albeit smaller—opportunity for increased tax revenues, as well as one for gains in equity and efficiency. Of course, the discussion from the previous section around the government's reputational cost for making such a decision also applies in this case, as well as the opportunity for a change that is phased in over time.

Similarly, changes to the set incentives included in the Special Economic Zones Act represent an opportunity to raise tax revenue and positively affect economic efficiency and progressiveness. Specifically, there is an opportunity in increasing the headline CIT rate and eliminating the tax credits for expenditures on R&D and training. This decision would make sense only if it is determined that the gains in efficiency and revenue outweigh the potential benefits of the country's industrial policy bet. Table 7 estimates different reform scenarios regarding changes to exemptions and deductions to the CIT.

Table 7. Reform 2 - Predicted impacts and challenges

Reform	Projected increased revenue (% of GDP)	Predicted political cost	Impact on economic efficiency	Impact on progres-siveness
Decrease employment tax credit 5 pp, to 25%	0.22	Medium	Slightly negative	Slightly negative
Eliminate grandfathered tourism incentives + SEZ CIT exemption and deductions	0.05–0.12	Medium	Slightly positive	Slightly positive

Source: PWC, and own estimations

2.3 Reform 3 - Increase National Insurance Scheme contributions or shift towards a universal approach to social security

The reform on pensions can take two forms, one continuing with the traditional approach of a contributory-based benefit with targeted poverty programmes, or alternatively moving towards a holistic approach to social security and universalizing social security through general taxes. The first option is politically easier to implement but will maintain inefficient incentives promoting labour informality. The second option would bring progressiveness to the system and improve incentives for growth but requires rethinking the whole social security logic of the country. Both alternatives are presented as potential options for the government to implement.

NIS revenues are low in Jamaica, approximately 1.3 percent of GDP, so there is a margin for an increase in revenues following the contributory logic. Moreover, it is necessary for the sustainability of the NIS if the approach is not modified. The latest NIS Actuarial Review warned the government about the need to increase contribution rates as the current funds are being depleted. Following those recommendations, Table 8 presents different scenarios for an increase in NIS contributions and estimates its revenue impact. The three scenarios propose an increase of 7.2 percent, 8.5 percent and 9 percent.[50] These scenarios project a revenue increase of 0.3 pp, 0.5 pp and 0.6 pp of GDP, respectively. Naturally, such an increase would be significantly higher if it wasn't for the informality barrier that affects Jamaica.

There is a debate on the impact of increasing labour taxes in a country with a 4.5 unemployment rate in April 2023 (according to the latest data from the Statistical Institute of Jamaica). The risk of a rate increase is to negatively affect labour-intensive activities that could, in turn, affect consumer prices (because of the higher

50 Eckler Consultants (2018). Actuarial Review of the National Insurance Scheme as at 2016 March 31. Kingston

share of labour involvement) and/or encourage the use of labour-saving technologies.[51] But taken individually, an increase in the NIS should not have an impact on labour competitiveness as it is well below the regional and global average. It will not have an impact on redistribution either given that the NIS only benefits contributors, and the contribution rate is not progressive salary-wise. It is expected though that a change in the contribution rate could be politically costly, given that it is an unpopular increase that could affect the net income of workers if wages are not renegotiated. The impact on the net income is in large part affected by the additional payroll taxes that finance programmes not directly benefiting the workers.

Table 8. NIS contributions - Predicted impacts and challenges

Reform	Projected increased revenue (% of GDP)	Projected increased revenue (% of tax revenues)	Predicted political cost	Impact on economic efficiency	Impact on progres-siveness
Increase NIS contributions to 7.2%	0.3	0.93	Medium	Neutral	Neutral
Increase NIS contributions to 8.5%	0.5	1.94	Medium-High	Neutral	Neutral
Increase NIS contributions to 9%	0.6	2.33	High	Neutral	Neutral

While the increase in contributions would be the standard procedure, it is possible to think of an alternative more holistic approach to contributory benefits. Following the policy debate launched by the UNDP LAC Regional Human Development Report 2021, Levy and Cruces proposed that social protection policies that cover risks common to all citizens should be funded by general taxes.[52] Progressivity and redistribution could be accomplished in Jamaica by taxing high-income individuals through a well-designed PIT and CIT and subsidizing low-income sectors through a universal pension programme. Given the universal provision of pensions, the expenditure should cover not only the current 0.9 percent of GDP NIS expenditure but also all of the new population covered. Taking into account all the people over 60 years old without any public pensions and assigning them the flat rate benefit of the NIS, the expenditure would be approximately 0.6 percent of the GDP. This would make a total NIS expenditure of 1.5 percent of GDP that would have to be covered by general revenues.

An additional thought has to be given to the PPS, the scheme for government workers. These pensions fully rely on public funds given the nature of the workers' salaries. Unlike the NIS, increasing contributions would not modify the regressiveness of the programme, given that they would still entail the use of public funds. The alternative reform possibilities are either to merge the PPS with NIS, which would be politically costly,[53] or cover its expenditures through CIT and PIT increases. Such an increase should cover the 1.4 percent of GDP that the PPS currently costs.

51 Inter-American Development Bank (2004). Revitalizing the Jamaican Economy Policies for Sustained Growth. publications.iadb.org/en/revitalizing-jamaican-economy-policies-sustained-growth

52 For a detailed discussion, see Levy, S. and Cruces, G. (2021). Time for a New Course: An Essay on Social Protection and Growth in Latin America. UNDP LAC Working Paper No. 24. Background Paper for the UNDP LAC 2021 Regional Human Development Report.

53 On average, PPS pensions are more than five-times higher than NIS pensions. Even though the PPS is financed through general revenues, the average pension represents 1.9 minimum wages, while the average NIS pension is 0.4 minimum wages. The coverage is approximately 10 percent of the population above 65 years old but varies significantly by income decile. Higher-income households have approximately 19 percent coverage, while PPS is almost absent in the lowest deciles, deepening the regressiveness of the scheme. Mera, M. (2021). Op. cit.

2.4 Reform 4 - Increase the personal income tax and establish new brackets

Personal income tax represents approximately 3.5 percent of GDP and 11.5 percent of tax revenues. As discussed earlier, this is a progressive tax that, in the case of Jamaica, is not fulfilling its function. Given the high tax-free threshold, only 20 percent of registered workers are covered by the tax, leaving most emoluments excepted (PIT taxes not only salaries but all personal income sources). Jamaican PIT tax allowance is high compared not only with OECD countries but with LAC as well. Thus, PIT opens the possibility for a reform that can achieve an increase in revenues as well as an improvement in redistribution.

Table 9 proposes a series of potential reforms to the PIT. As said, there is limited data on wage distribution in Jamaica, and thus any estimation needs to be read with caution.[54] The first reform estimation reduces the tax-free threshold to J$1.25 million, which increases almost 30 percent of the number of workers covered by the tax and estimates a 1 pp of GDP increase in revenue. This reform would be compatible with increases in SSC as it would not further increase labour costs for lower-income workers.

If Jamaica adopted a universal social protection approach and changed the sources of social protection finance, it would be reasonable to cover those costs at least in part with a progressive PIT. In this line, a second reform proposal has a different approach and creates two new brackets: taxable emoluments below J$ 1million would pay 5 percent, and emoluments between J$1 and J$1.5 million would pay 10 percent. With this reform, all workers are covered by the tax, which has a significant increase in revenues. Under this scenario, there is an estimated increase of 2.7 pp of GDP in revenues. The third scenario incorporates both reforms to achieve a higher revenue that can cover the cost of expanding social security coverage: two brackets are incorporated and the threshold for the third bracket is lowered to J$ 1.25 million. This option is estimated to represent an increase of 3.3 pp of GDP in revenues.

On the political economy aspect of the reforms, any PIT modifications could have political costs and affect economic efficiency at the same time that it is expected to increase progressiveness in payroll taxation. The first scenario will affect the highest quintiles, so the economic impact and the political cost should be low. However, the second and third scenarios require a broader tax base and will affect all registered workers if SSCs are not modified as well, so political opposition should be expected. Any reform to the PIT has to internalize interactions with SSCs and how both affect formality and labour supply (e.g. an increase in PIT without a decrease in SCC would increase labour cost, deepening inefficiency in taxation).

54 Table 10 estimations are based on the wage distribution of NIS contributors in 2016. Every registered worker contributes to the NIS so the universe should match the PIT universe. For the estimations, 2016 wages were adjusted for inflation, and each reform was estimated on this sample. Projected revenues were later estimated using 2020 tax revenue information. Eckler Consultants (2018). Op. cit.

Table 9. PIT contribution rates and brackets - Predicted impacts and challenges

Reform	Projected increased revenue (% of GDP)	Projected increased revenue (% of tax revenues)	Predicted political cost	Impact on economic efficiency	Impact on progres-siveness
Reduce PIT threshold to J$1,250,000	1.0	3.6	Medium	Neutral	Positive
Establish PIT brackets: below J$1M (5%), above J$1M (10%), above J$1.5M (25%), above J$6M (30%)	2.7	9.7	Medium-High	Positive	Positive
Establish PIT brackets: below J$1M (5%), above J$1M (10%), above J$1.25M (25%), above J$6M (30%)	3.3	11.8	Medium-High	Positive	Positive

3 Constructing a coherent reform

In a context where the country has been running primary fiscal surpluses in recent years, this report has attempted to present several alternative tax reforms that could aid the government in increasing tax revenues further and improving the progressiveness of the system. In general, we can see that comprehensive tax reform is possible, but likely politically costly because the number and magnitude of reforms suggested here, while in aggregate is positive for the economy's efficiency and more equitable income distribution, would impact several special interest groups that would most likely oppose such reforms. Having said that, there is significant space to increase tax revenues, and those reforms can still greatly strengthen fiscal finances and contribute to a more equitable and less uneven tax system. In this last section, we explore two reform packages that could achieve both of these objectives.

3.1 Reform package 1 - Strengthening fiscal finances and improving welfare while minimizing political cost

Achieving a substantive increase in tax revenue would require reforms that would modify the economic incentives faced by firms and individuals in Jamaica. Balancing a revenue maximization strategy with the predicted political costs, we can think of a package that could still meaningfully strengthen fiscal finances as well as improve economic efficiency and the tax system's progressiveness, while minimizing potential political conflict. This proposed reform package, summarized in Table 10, can help the government increase tax revenue by 10.44 pp or more than 2.9 pp of GDP.

Table 10. Elements of a reform that helps strengthen fiscal finances and improve welfare while minimizing political cost

Reform	Projected increased revenue (% of GDP)	Projected increased revenue (% of tax revenues)	Predicted political cost	Impact on economic efficiency	Impact on progres-siveness
Roll back pandemic GCT rate decrease	0.7	2.48	Low	Neutral	Slightly negative
Increase the GCT rate to 18%	0.68	2.40	Medium	Neutral	Slightly negative
Decrease employment tax credit 5 pp, to 25%	0.22	0.77	Medium	Slightly negative	Slightly negative
Increase NIS contributions to 7.2%	0.3	0.93	Medium	Neutral	Neutral
Reduce PIT threshold to J$1,250,000	1.0	3.6	Medium	Neutral	Positive
Reform package 1	**2.9**	**10.44**			

This alternative reform package would roll back the 2020 GCT rate decrease and increase the standard rate to 18 percent, still below the regional averages. It would also decrease the CIT employment tax credit by 5 percent. Contributions to NIS would increase moderately, while the PIT threshold would be reduced to J$1,250,000 with no additional brackets. This reform package has the potential of increasing economic efficiency although its impact on progressiveness would need to be further explored, as some modifications have positive impacts and others slightly negative.

3.2 Reform package 2 - Strengthening fiscal finances and universalizing social security

A more holistic and progressive approach is presented in reform package 2 (Table 11). The main feature of this package is the universalization of the NIS pension, which would entail that the expenditure (1.59 percent of GDP) be covered by other, more progressive taxes, such as CIT and PIT. Additionally, it could include all other contribution taxes that currently do not represent a direct benefit to the worker and are cross-subsidies for general programmes. Like in package 1, GCT rate decreases are rolled back and its rate increased to 18 percent, same with CIT increases. A more aggressive restructuring of PIT is needed to cover the lack of NIS contributions and other SSCs, and thus new brackets are created with progressiveness in mind. The result is still an increased tax revenue of 1.69 pp or 0.45 pp of GDP.

Table 11. Elements of a reform that helps strengthen fiscal finances and universalize social security

Reform	Projected increased revenue (% of GDP)	Projected increased revenue (% of tax revenues)	Predicted political cost	Impact on economic efficiency	Impact on progres-siveness
Roll back pandemic GCT rate decrease	0.7	2.48	Low	Neutral	Slightly negative
Increase the GCT rate to 18%	0.68	2.40	Medium	Neutral	Slightly negative
Decrease employment tax credit 5 pp, to 25%	0.22	0.77	Medium	Slightly negative	Slightly negative
NIS universal coverage	−1.58	−5.59	Medium	Positive	Positive
Social security universalization	−2.87	−10.1	Medium	Positive	Positive
Establish PIT brackets: below J$1M (5%), above J$1M (10%), above J$1.25M (25%), above J$6M (30%)	3.3	11.8	Medium-High	Slightly negative	Positive
Reform package 2	0.45	1.69			

Conclusion

Jamaica started a pathway towards fiscal responsibility and is showing significant improvements. Following a strict Stand-By Agreement with the IMF that required Jamaica to produce an annual primary surplus of 7 percent to reduce its debt-to-GDP ratio, the public debt fell under 100 percent of GDP in 2018/19, and it is expected to decline below 60 percent by 2025/26, in line with the provisions of the Fiscal Responsibility Law.[55] In this context, Jamaica modified its Tax Administration and has achieved a 4.5 pp increase in revenues in eight years. However, the country still faces serious challenges. The informal economy, the high tax-free threshold and tax expenditures, and the regressiveness of the tax structure are problems that need to be addressed.

This document reviewed some of the main problems present in the Jamaican national tax system and proposed a series of possible reforms. The three sections of the document identified the main sources of inefficiency and injustice, proposed desirable reform for these problems, and quantified the revenue impact as well as the potential efficiency and redistribution derivations. Finally, the last section proposed two possible reform packages with a selection of changes that could maximize feasibility or maximize progressiveness.

While there is room for improvement in Jamaica's tax system, a significant modification that can boost revenues or significantly modify the progressiveness of the system will necessitate considerable political capital. Expanding the narrow tax base requires incentives for formalization but also enforcement. The process of enforcing taxes on a highly informal economy will generate political backlashes that require significant political capital. Similar efforts need to be made to increase GCT, a reform that will not be popular among consumers. With regards to corporations, decreasing CIT employment tax credits or increasing NIS contributions would also raise opposition from several sectors that are key to the country's economy.

55 The World Bank. Jamaican Overview. Accessed on 8 April 2022 www.worldbank.org/en/country/jamaica/overview

A special mention has to be made regarding the universal expansion of social security through progressive taxation. This proposal, which follows the recent work by UNDP, would require a strong political will and a well-thought process of reform and adaptation of the current tax system and social security programmes to a more progressive one. Such reform could potentially transform the informal economy and foster growth, but if not correctly designed, it could affect the sustainability of the system as a whole.

Any new tax reform in Jamaica needs to balance the potential revenue and progressiveness gains with the political costs of such an endeavor. This calculation exceeds the objective of this document and requires a close evaluation of the political scenario and social juncture at which reforms are implemented. Nevertheless, the findings of this document represent input for policymakers to identify potential roads to improvement and to select those reforms that outbalance the political cost and favour revenues and/or redistribution.

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