

Evolution of Jamaica's Excise Tax Regime for Alcohol and Tobacco Products†

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May 17, 2017

Outline of Presentation

- ✓ Introduction
- ✓ Research Objectives
- ✓ Evolution of the *Specific* SCT
- ✓ Hindrances to Effective Tax Reform
- ✓ Conclusions and Future Work

Introduction

- With a population of 2.7 million, Jamaica has a **hybrid tax system** with a mix of *indirect* and *direct* taxes (more reliance on the former in recent years) being levied. The **Special Consumption Tax (SCT)** is among the major tax types.
- The SCT is an *indirect* excise tax levied on **alcoholic beverages, tobacco**, petroleum products and motor vehicles. Focus here will be on the first two items.

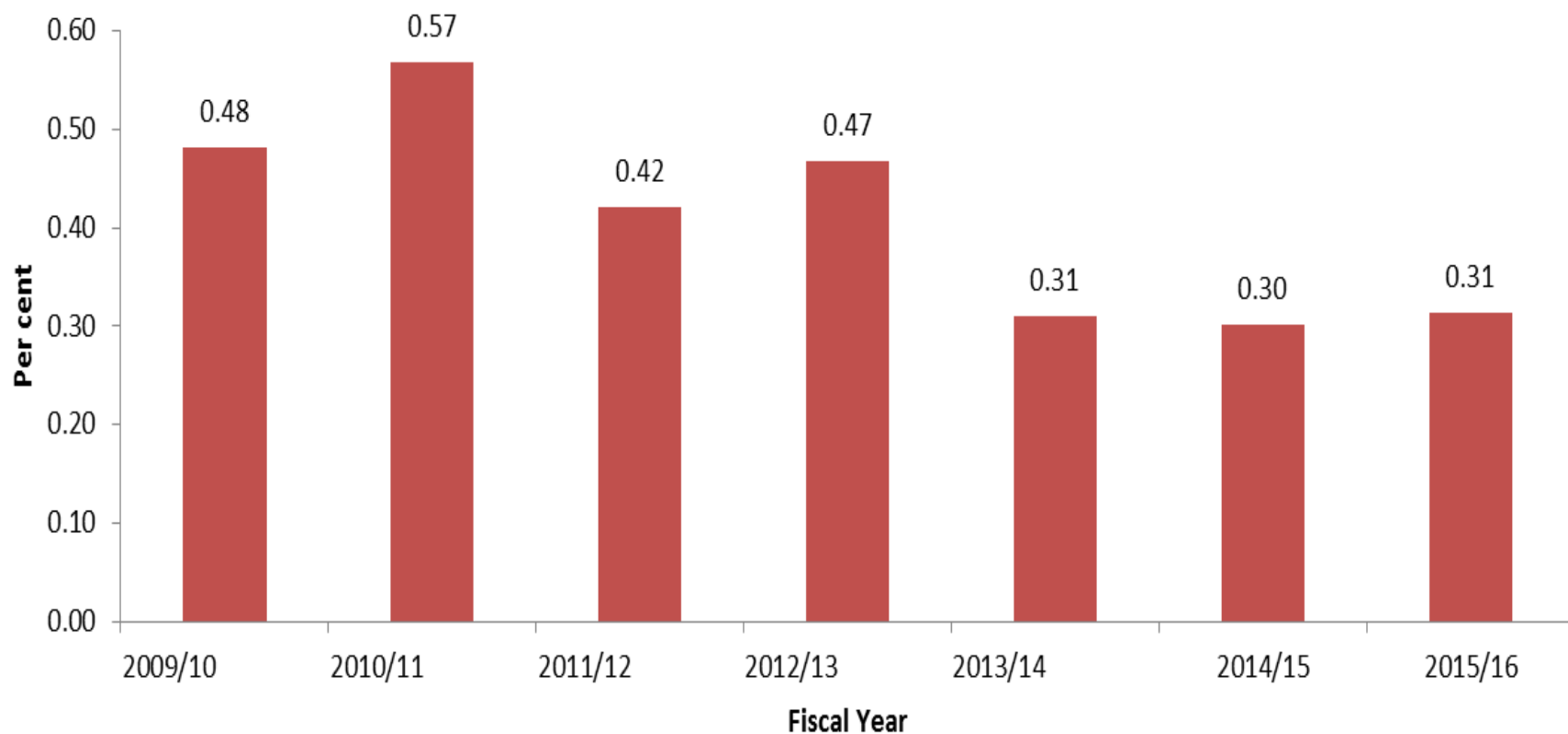
Table 1: Major Tax Types as a Percentage of Total Tax Revenue, 1989-2017

Year[‡]	Income^a	PAYE	Corporate	GCT	SCT	Ed. Tax	GCT & SCT
89/90	41.8	18.7	11.2	n.a.	n.a.	3.3	n.a.
90/91	47.0	19.2	16.5	n.a.	n.a.	3.9	n.a.
91/92	42.2	20.8	13.4	11.9	n.a.	3.7	n.a.
92/93	41.4	17.9	14.2	21.4	n.a.	3.5	n.a.
93/94	37.6	16.3	14.3	28.0	6.9	3.6	34.9
94/95	40.4	17.8	15.1	28.6	6.2	4.0	34.8
95/96	37.6	18.4	13.7	31.4	6.1	4.1	37.5
96/97	39.2	21.6	11.3	30.6	5.2	4.8	35.8
97/98	39.3	22.2	10.1	30.2	6.2	5.3	36.4
98/99	38.6	22.4	9.1	29.2	7.7	5.0	36.9
99/00	38.7	18.7	9.2	26.8	11.3	4.7	38.1
00/01	40.7	19.0	8.8	25.7	11.2	4.4	36.9
01/02	39.2	20.9	7.4	25.7	11.6	4.7	37.2
02/03	39.4	21.7	7.7	27.4	10.3	4.7	37.6
03/04	41.4	20.9	7.6	27.9	9.7	4.4	37.6
04/05	41.8	23.5	7.0	27.9	8.2	4.4	36.1
05/06	40.9	21.3	9.8	29.9	7.1	4.5	37.0
06/07	40.5	21.8	9.7	30.6	7.0	4.9	37.6
07/08	42.2	21.9	9.7	30.4	5.7	4.7	36.1
08/09	43.6	23.3	10.9	28.3	7.7	4.8	36.0
09/10	44.5	21.1	11.2	26.4	11.3	4.6	37.8
10/11	37.6	18.4	11.9	30.3	13.7	4.7	44.1
11/12	36.7	20.8	10.0	30.9	12.7	5.2	43.6
12/13	36.2	19.0	11.2	30.1	12.8	4.7	42.9
13/14	32.8	18.3	10.2	32.7	11.1	5.3	43.9
14/15	32.6	18.3	9.7	33.0	11.0	5.3	44.0
15/16	31.7	17.5	10.3	33.6	12.5	5.2	46.1
16/17	29.7	14.2	11.3	33.1	13.8	5.2	46.9
Mean	38.5	20.0	10.3	29.5	9.5	4.7	39.0
Median[*]	39.4	20.0	10.2	29.5	10.0	4.7	37.5

Notes: [‡]Refers to fiscal year i.e. April 1 of the starting year to March 31 of the following year. ^aTotal Income Tax comprises *inter alia* Corporate Income Tax and 'Pay as You Earn' (PAYE). ^{*}Average for the period 1993/1994 to 2015/2017. Median for full period 1989-2017. Discrepancies due to rounding.

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

Figure 1: Jamaica's *Specific* SCT Tobacco Revenue as a Share of GDP, 2009-2016



**Figure 2: Jamaica's Imputed Total Cigarette
'Consumption', 2006-2016**

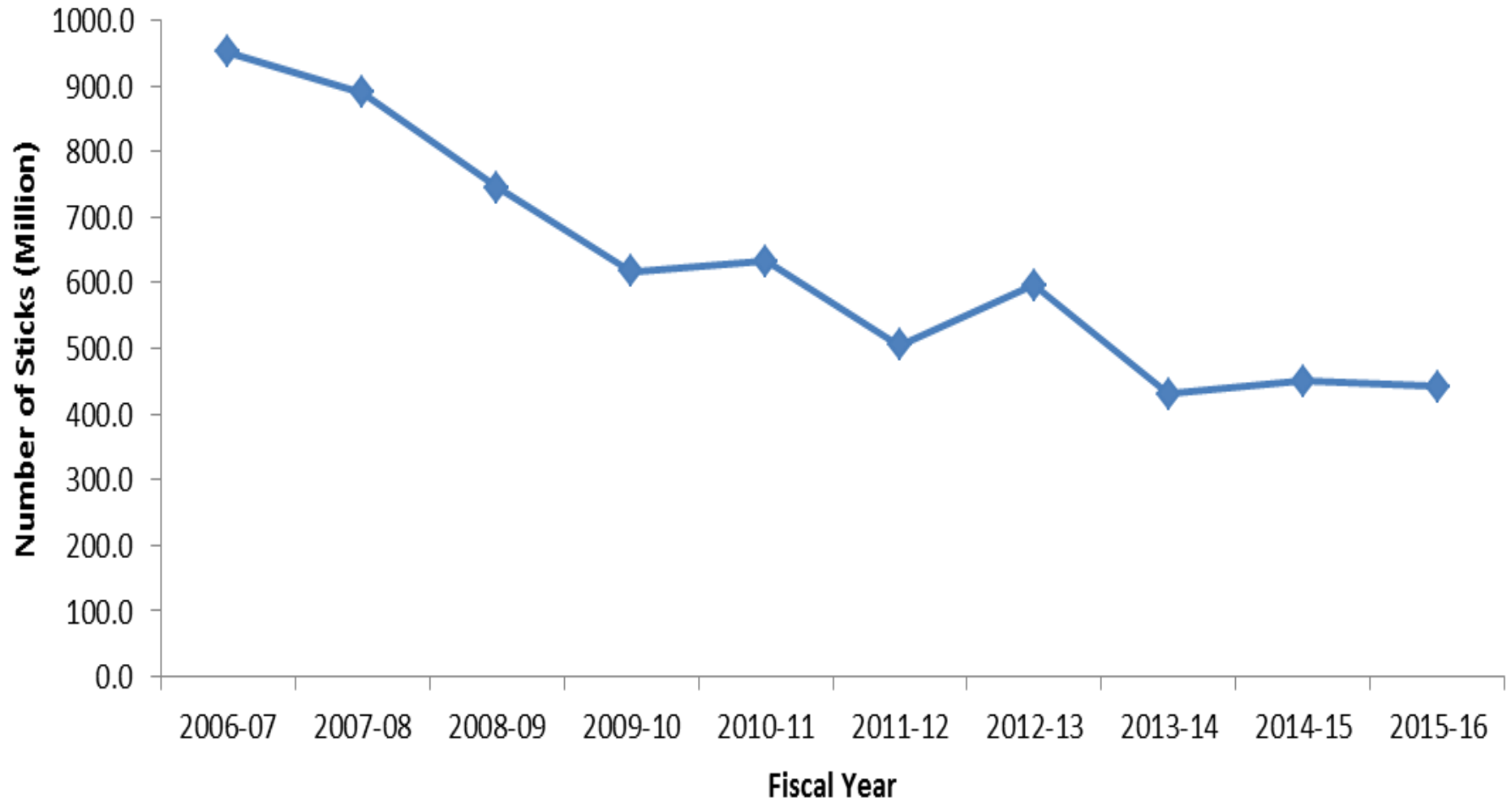
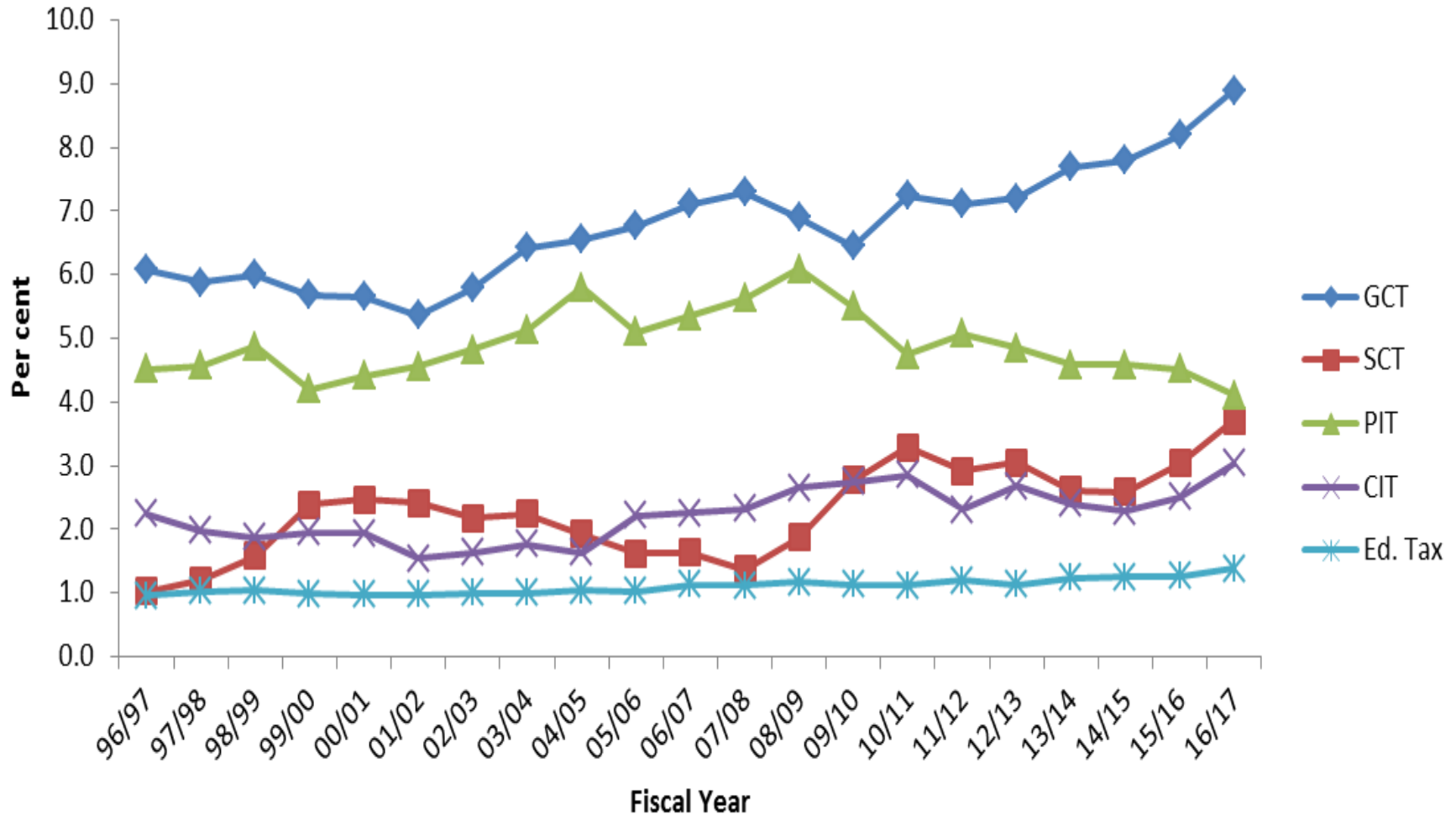


Figure 3: Receipts from Major Tax Types as a Percentage of GDP, 1996-2017



Intro, cont'd

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

Since **March 13, 2017**, Jamaica's *Specific* SCT on all alcoholic beverages is \$1,230 per **litre of pure alcohol (L.P.A.)** (up from the previous rate of \$1,120 per L.P.A.).

Intro, cont'd

Like alcohol, the SCT on Tobacco products such as **Cigarettes**, is *specific* in nature (but in this case, a tax per stick).

Jamaica gradually raised the *Specific* SCT on tobacco products to **\$17,000 per 1,000 sticks** (up from the **\$1,920** per 1,000 sticks levied in April 2005) of cigarettes (for example). A nominal increase of 785%.

This rate has been in effect since **March 13, 2017**.

- Single *Specific* SCT for tobacco products (ideal because it is relatively easy to administer as Jamaica Customs Agency and Tax Administration Jamaica can now easily verify the quantities and the tax payable).
- Tax reform targeted specifically at these items.
- On **May 13, 2016**, Govt. achieved **unification** in the tax rate for cigarettes and its tobacco substitutes i.e. now a single *Specific* SCT for *Cigarettes, Cigars, Cigarillos, Cheroots* as well as related tobacco substitutes, is in place.

Progression of Specific SCT Rates on Alcohol

- On **December 1, 2010**, Government revamped the SCT structure to tax based on their alcohol content (using *specific* rather than *ad valorem* SCT rates) rather than based on the class of beverage.
- Hitherto, different *ad valorem* SCT rates were levied on *Beers, Spirits, Wines* and *Cordials & Liqueurs*. Now a single *Specific* SCT rate for **all** alcoholic beverages.

The **rationale** behind the policy reform of Jamaica's excise tax structure for **alcoholic beverages** was due mainly to the following:

Various independent studies had shown that the *ad valorem* SCT rates severely distorted competition within the local alcoholic beverage sector, frustrated responsible drinking efforts and unfairly penalized beverages with relatively lower alcohol content.

Evolution of SCT Rate for Cigarettes

Policy Effective Date:

Effective April 15, 2005

Effective April 13, 2007

Effective April 14, 2008

Effective May 11, 2009

Effective January 1, 2010

Effective March 13, 2015

Effective March 16, 2016

Effective March 13, 2017

***Specific* SCT Rate for Cigarettes:**

\$1,920 per 1,000 sticks

\$2,300 per 1,000 sticks

\$6,000 per 1,000 sticks (up from \$2,300)

\$8,500 per 1,000 sticks (up from \$6,000)

\$10,500 per 1,000 sticks (up from \$8,500)

\$12,000 per 1,000 sticks (up from \$10,500)

\$14,000 per 1,000 sticks (up from \$12,000)

\$17,000 per 1,000 sticks (up from \$14,000)

Research Objectives

We want to *inter alia*:

1. Examine the evolution of the *Specific* SCT rates on **alcohol** and **tobacco** products.
2. Summarize various achievements of tax policy reform in Jamaica.

Why Important? i.e. Justification for Research

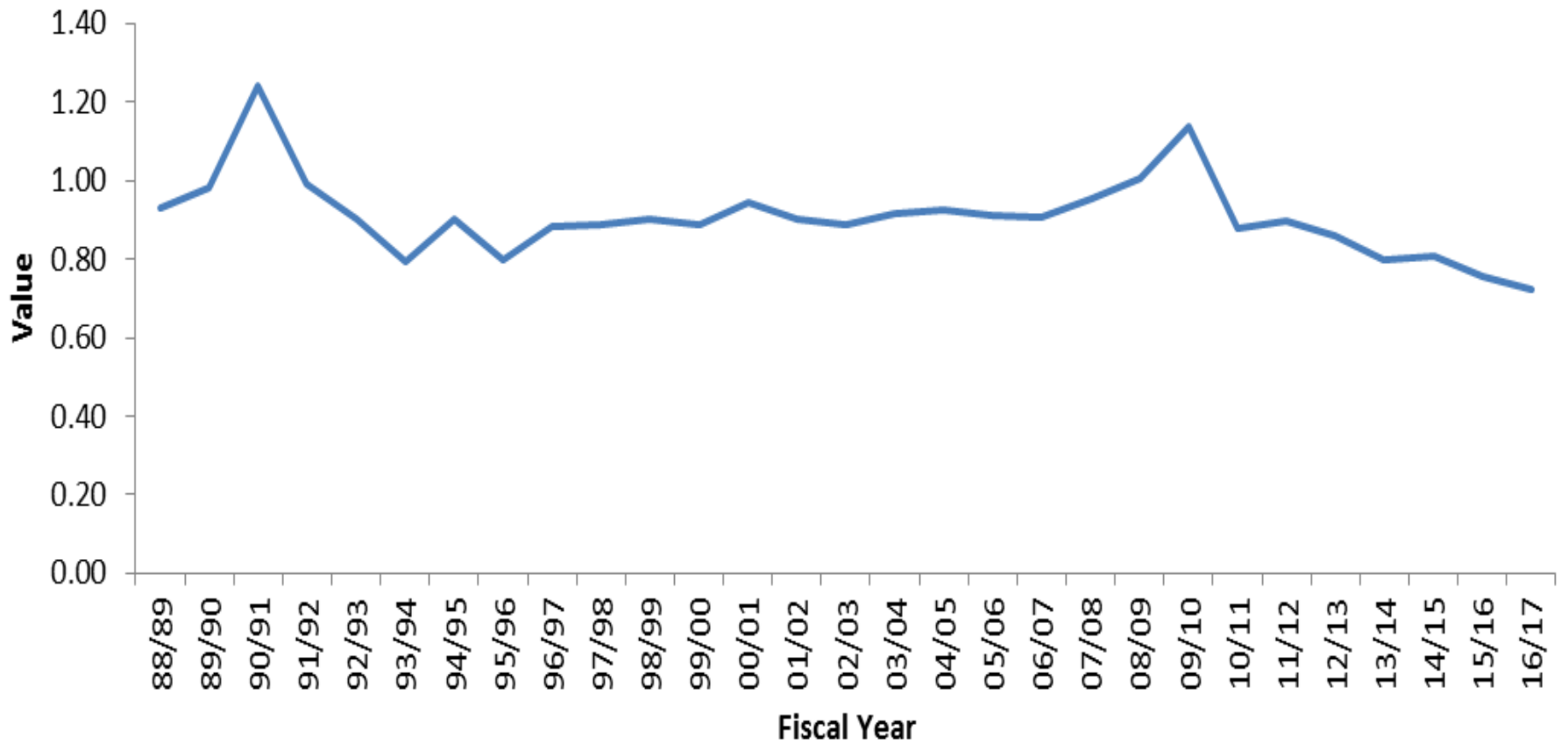
- Assess the effectiveness of Jamaica's current tax regime for tobacco and alcohol.
- It's a part of the PAHO/WHO Workshop!

Bottlenecks to Successful Tax Reform

There are **at least 4** hindrances to effective tax reform in Jamaica:

- ❖ **Budgetary Implications**
- ❖ **Potential “Winners” and “Losers”**
- ❖ **Jamaica’s CARICOM Involvement**
- ❖ **Political Considerations**

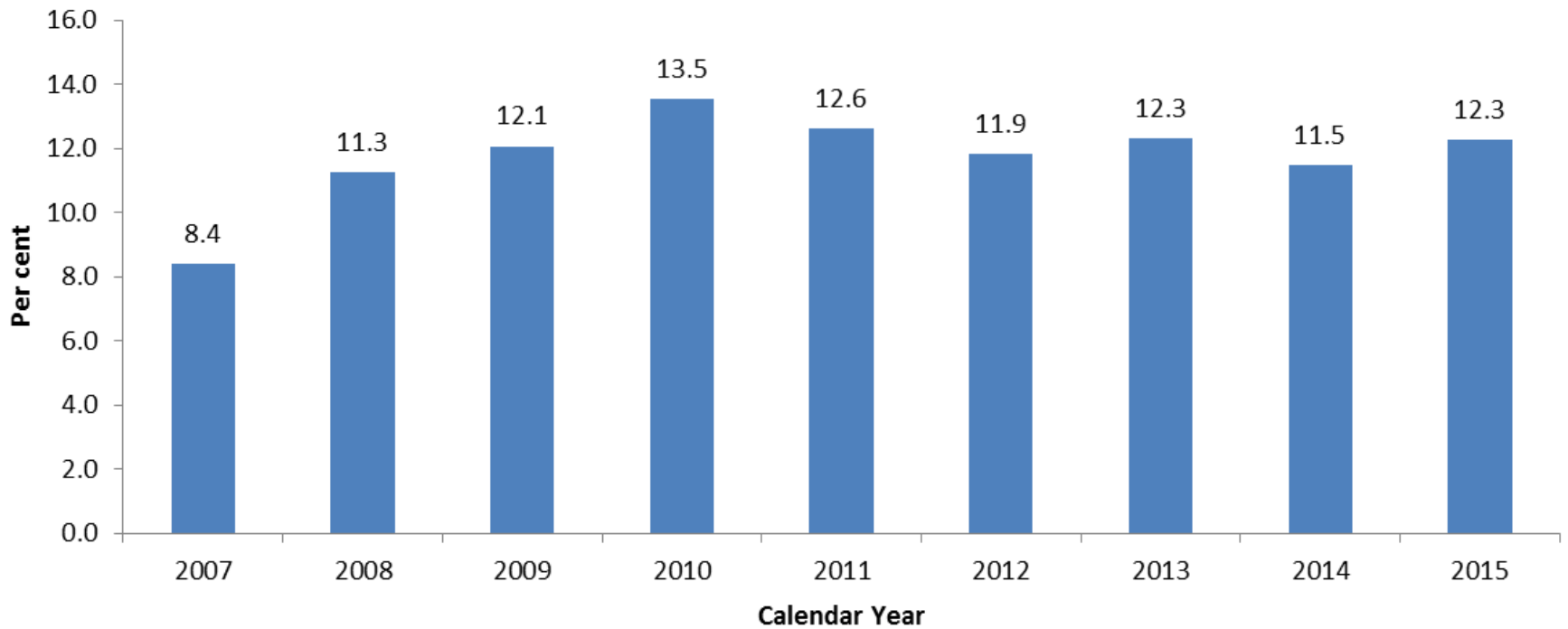
Figure 4: Jamaica's Direct to Indirect Tax Revenue Ratio, 1988-2017



Conclusion and Future Research

- Our **major contributions**: We documented Jamaica's reform of its tax structure for alcohol; to tax based on alcohol content. In the case of tobacco, recent reforms have been based mainly on health (rather than budgetary) considerations. Jamaica has an on-going commitment (MOH and MOF jointly) to the World Health Organization (WHO) (*via* Article 6 of the *Framework Convention on Tobacco Control* (FCTC)), to reduce tobacco consumption locally. The country ratified the FCTC on **July 7, 2005**. **Strong bi-partisan support** nationally on taxing 'SIN' products!
- Tax policy measures complement *inter alia* Jamaica's **graphic health warnings, smoking ban**, etc. aimed at limiting the consumption of tobacco products based on their harmful effects. As far as we are aware, there is no legislation requiring minimum prices of alcohol and tobacco. Recent empirical evidence have shown that consumption of cigarettes have **dramatically declined** over time in Jamaica and that they have actually become **relatively less affordable** since 2007.
- Nevertheless, **future work** to refute the claim of increased **smuggling** of tobacco products and to ascertain the **potential of tax stamps**, is warranted.

Figure A1: Jamaica's Relative Income Price (RIP) of Cigarettes, 2007-2015



Thanks for Listening....

Questions?