



ANY REPLY OR SUBSEQUENT REFERENCE SHOULD BE ADDRESSED TO THE
FINANCIAL SECRETARY AND THE FOLLOWING REFERENCE NUMBER QUOTED:-

Telephone No. 92-28600-16
Website: <http://www.mof.gov.jm>
Email: info@mof.gov.jm

MINISTRY OF FINANCE AND PLANNING
30 NATIONAL HEROES CIRCLE
P.O. BOX 512
KINGSTON
JAMAICA

September 1, 2014

Mrs. Therese Turner – Jones
Country Representative
Inter-American Development Bank (IDB)
40-46 Knutsford Blvd.
Kingston 5
Jamaica

Dear Mrs. Turner-Jones

RE: Requesting Technical Assistance for Sectoral Incentives Study

Jamaica, as the Inter-American Development Bank (IDB) is aware, has in recent years been undertaking a comprehensive reform of the Jamaica tax system. Among the reforms undertaken to date is the introduction of a new regime for tax incentives which essentially replaced the primarily sectoral incentive framework that existed with a more generalized system. Elements of the prior incentive system were, however, left in place under a ‘grandfathered’ arrangement. In an effort to ensure the effectiveness of the new incentive regime the Jamaican authorities intend to conduct an entity-by-entity review of the grandfathered incentives.

Given the extensive portfolio obligations of the Ministry of Finance and Planning, and its agencies, Tax Administration Jamaica (TAJ) and Jamaica Customs Agency (JCA), the Jamaican authorities are unable at this point to conduct this comprehensive entity-by-entity review. Consequently, Jamaica is requesting technical assistance from the Inter-American Development Bank to conduct this assessment. It is envisaged that the review will be conducted by an international expert in the area, on the recommendation/support of the IDB/International Monetary Fund (IMF).

The major rationale for pursuing this exercise is two-fold: Firstly, the resulting findings would assist in gauging the effectiveness of the previous tax incentive regime. There is growing consensus that the impact of incentives in attracting investments and aiding growth is empirically mixed and highly inconclusive. As a result, it would be useful to, at least, conduct an independent cost-benefit study of tax incentives to compare the direct financial costs from tax revenues foregone with the benefits in terms of higher employment/activity and the resulting tax revenues.

Secondly, the need for the entity-by-entity incentive review is that ideally, tax incentives should not be granted in situations where investments would hardly respond to such incentives. If investors actually do respond to these incentives, then the country might only benefit from “redundant investments” i.e. those that would have occurred regardless of whether or not a tax incentive was granted. In this vein, the

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proposed study could help to identify the sectors in which the incentives granted by the Jamaican Government are actually associated with redundant investments.

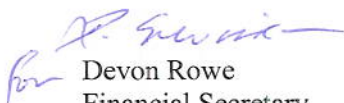
In sum, it would be useful if the proposed sectoral incentives study could at least do the following:

- 1. Estimate the direct revenue/gain or loss over the years due to the granting of incentives**, including the indirect effects; such as, the incremental gains that resulted *via* additional employment, tax revenue and the impact on Gross Domestic Product. These issues, especially the estimation of the indirect effects, are not straightforward and, as a result, a leading and experienced expert who has worked on this area before would be ideal to tackle these matters;
- 2. Determine the empirical significance of the impact of these incentives on Jamaica's economic growth** in recent years, or at least for a cross-section (one year) and;
- 3. Perform a counterfactual analysis to show what would have happened to the beneficiary sectors if these incentives were not granted.** In other words, it would be useful to determine which of the sectoral investments would have occurred regardless of whether or not an incentive was given.

As mentioned earlier, the examination of the above issues is complex in nature, but, arguably too important to ignore at this juncture. Consequently, the IDB is being requested to provide technical assistance for the study including the preparation of Terms of Reference (TOR) for the proposed incentive review **by the end of September 2014** that requires submission of a draft report on the review **by the end of December 2014**.

An early response on the feasibility of the IDB facilitating this request would be greatly appreciated.

Yours sincerely,


Devon Rowe
Financial Secretary

C: Mrs. Pamela C. Folkes
DFS, Taxation Policy Division, Ministry of Finance and Planning

Mr. Ainsley Powell
Commissioner General, Tax Administration Jamaica

Major (Ret'd) Richard Reese
Commissioner, Jamaica Customs Agency

Ms. Barbara Scott
Deputy Director General, Planning Institute of Jamaica