

MEASURING THE IMPACT OF
GOVERNMENT OF JAMAICA
TAX REFORM MEASURES ON
CONSUMPTION
EXPENDITURE BY DECILE

Who Benefits and Who
Pays?

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DRAFT

EXECUTIVE SUMMARY

- The reform of Jamaica's tax system is one of the strategies being pursued by the Government of Jamaica (GOJ) to strengthen economic growth and spur job creation. One of the planks of the reform is the moving away from a direct tax system to an indirect tax system.
- This report seeks to assess the impact of moving away from a direct tax system, that is increasing the income tax threshold to \$1.5 million, and the specific measures put in place to close the gap on the typical household's purchasing power at different consumption deciles using data from the *Jamaica Survey of Living Conditions*. Analysis undertaken suggests that the wealthiest deciles who are formally employed will benefit the most, and those who are informally employed will be negatively impacted the most.

Summary of the Impact of GOJ's Tax Reform and Social Assistance (PATH) Measures on Purchasing Power of Households by Decile

Deciles	(1): Income Tax Threshold Measure	(2): Tax Compensating Measures	(3): Net Tax Effect (1+2)	(4) PATH Benefit	(5): Overall Impact - Net Tax Effect and PATH Benefit (3+4)
Poorest - 1	0.0%	-0.4%	-0.4%	1.6%	1.2%
2	0.4%	-0.9%	-0.5%	1.0%	0.5%
3	0.8%	-0.9%	-0.1%	0.4%	0.3%
4	0.4%	-1.0%	-0.6%	0.5%	-0.2%
5	0.8%	-1.1%	-0.3%	0.3%	0.0%
6	1.2%	-1.2%	0.0%	0.1%	0.1%
7	2.2%	-1.1%	1.1%	0.1%	1.2%
8	3.8%	-1.4%	2.4%	0.1%	2.5%
9	5.1%	-1.7%	3.5%	0.0%	3.5%
Richest -10	6.5%	-2.1%	4.4%	0.0%	4.4%

Differences due to rounding error

- The tax reform has spread the tax burden mainly among the upper deciles (deciles 9 and 10), which has resulted in persons formally employed and earning above \$592,800

becoming a net beneficiary and the informally employed paying a larger share of what they are expected to pay.

- The poorest deciles (deciles 1 to 5) will be made worse off, as they are less likely to benefit from the increase in the income tax threshold, but will face higher prices as a result of the tax measures. The increase in the social assistance spending by GOJ for FY2017/18, in particular, the 30% increase in the value of the PATH cash transfer payments across all deciles will cushion the impact on these deciles. However, NON-PATH households in the poorest deciles (deciles 1 to 5) will be worse off.
- Overall, the tax reform, when combined with the increase social assistance (PATH benefits), will largely have a net positive impact on the standard of living of the typical household in the country

1. INTRODUCTION

Motivation of the Note

- The Government of Jamaica (GOJ) is in the process of a comprehensive economic reform programme with the aim of accelerating inclusive economic growth and job creation. One of the pillars of the country strategy is the tax reform programme. It is envisioned that the tax reform programme will:
 - simplify the tax system – by making it easier for persons to understand and pay taxes
 - minimize economic distortions – by removing sector specific incentives and moving to an incentive system that is merit based
 - limit discretion – through the limiting of ministerial discretion as it relates to the granting of tax incentives
 - broaden the tax base – through increasing the number of goods and services that are subject to tax
- These measures, as well as others related to tax administration, are expected to increase the compliance rate, which should lay the foundation to lower tax rates in the future.
- One of the planks of the tax reform programme is the moving away from a direct tax system to an indirect tax system. The arguments in favour of this move are pro-growth, in that the system: 1) is easier to enforce and implement, which will stabilize GOJ's revenues, thus making it easier for GOJ to plan; 2) encourages savings, which place downward pressure on interest rates, and therefore stimulate investment; 3) reduces distortion between leisure and work, which should encourage persons to participate in the labour force, as they will be carrying home a greater portion of their income.
- However, moving to a more indirect tax system also comes with its drawbacks, as it is usually regressive in nature, that is, it affects the purchasing power of lower income households more, as they are less likely to save; and is usually associated with cost-push inflation. Cognizant of the possible negative impact of moving to an indirect tax system,

the GOJ expanded Jamaica's social assistance programme to mitigate the impact on the poor.

Objective of the Note

- The purpose of this discussion note is to measure the impact of the GOJ's Tax revenue measures for FY2016/17 and FY2017/18 and its accompanying social assistance programme on the purchasing power of the typical household in the poorest to wealthiest deciles.

Outline of the study

- The rest of the discussion note will be as follows, Section 2, will contextualise the tax measures as it relates to who will benefit from the threshold increase and who will lose from the increase in taxes. Section 3, will present the impact of the tax measures on the purchasing power of households. Section 4 will provide a summary of current GOJ initiatives to strengthen social protection and plans for FY2017/18; and Section 5 will conclude with a summary of the findings.

2. METHODOLOGY and DATA DESCRIPTION

- In order to assess the impact of the tax reform on the purchasing power of the typical household, from the poorest to the wealthiest, the *Jamaica Survey of Living Conditions (JSLC)* was used.
- The *JSLC* collects information on Consumption expenditure (food, transport, etc) and Non-Consumption expenditure (taxes, repayment of loans, etc) from households within Jamaica. Additionally, it also provides information on the characteristics of employed persons in Jamaica and their contribution to social assistance programmes that are typically (but not exclusively) deducted from an employee's payroll. Therefore, it provides us with the information to analyse the expenditure patterns of

Jamaicans and facilitate the estimation of persons who are formally employed and the income of the household.

- It is assumed that the spending patterns of individuals will not change because of the tax reforms. Additionally, only the direct effects of the tax reform are measured¹.

Direct Tax Impact

- It is envisioned that the increase in the income tax threshold, from \$592, 800 to \$1.5 million will reduce the burden on the income tax payers. A relatively large percentage of Jamaica's employed labour force does not have a formal tax paying relationship with the Tax Administration Jamaica (TAJ)². However, these persons will have to purchase goods and services, which usually require the payment of GCT and SCTs (Indirect tax).
- This section of the note seeks to identify who will benefit from the increase in the income tax threshold. In order for someone to benefit, they will have to satisfy the following criteria:
 - Be employed;
 - Be registered with the TAJ – (i.e. **formally employed**) the level of informality in Jamaica, especially in the labour market, is one of the reasons why the country is moving away from a direct tax system. **Therefore, persons who are informally employed will not benefit from the increase in the income tax threshold, even if their income were above the previous income tax threshold.**
 - Currently earning an income exceeding the previous income tax threshold of \$592,800.

¹ Changes in tax rates can have direct and indirect impacts on households. Direct impact refers to the change in prices directly related to the new tax. Indirect impact refers to the impact of the increase in the prices of goods and services as a result of the new tax measures, on other goods and services that uses the goods and services that are taxed.

² According to the Jamaica Labour Force Survey 2015, in 2015 the formal sector accounted for 39.6% of total employment.

Who benefits?

- Given that the above three criteria for benefitting from the increase in the income tax threshold are satisfied, the data suggest that **All deciles will benefit, except decile 1 (poorest 10%), as no household in decile 1 contains a person who meets all three conditions.** The wealthier the household, the more likely you will find members who are formally employed and earn above the previous income tax threshold of \$592,800.
- The wealthiest two deciles (deciles 9–10) will benefit the most, as they have more households employed formally, more persons within the household (2 and more) formally employed, and their income is above the previous income tax threshold of \$592,800. An estimated 39.1% and 30.7% of the households in deciles 10 and 9, respectively, satisfy the conditions for benefitting (Table 1).

Table 1 Percentage of households (HH) that will benefit from the increase in income tax thresholds by the average number of persons that are employed in these household

Deciles	HHs with 1 Employed	HHs with 2 Employed	HHs with 3 Employed	HHs with 4 Employed	TOTAL
Poorest - 1	0.0%	0.0%	0.0%	0.0%	0.0%
2	1.7%	0.8%	0.0%	0.0%	2.5%
3	1.6%	0.8%	0.8%	0.8%	4.1%
4	1.4%	0.7%	0.7%	0.7%	3.4%
5	5.3%	2.4%	0.0%	0.0%	7.6%
6	5.6%	3.7%	1.2%	0.0%	10.5%
7	8.6%	4.8%	1.6%	0.5%	15.5%
8	13.7%	9.1%	3.6%	0.0%	26.4%
9	15.4%	12.4%	2.9%	0.0%	30.7%
Wealthiest -10	26.2%	10.8%	2.2%	0.0%	39.1%

Indirect Tax Impact

- To offset the revenue loss associated with the increase in the income tax threshold, the GOJ introduced new tax measures (Table 2). These measures are indirect tax measures as they require someone to purchase a good or a service before they are taxed.

Table 2: Items Taxed in FY2016/17 and FY2017/18

DETAILS	Tax Revenue Expected (\$ Billion)
PHASE 1	
Offsetting Measures	
Increase the specific SCT component by \$7.0 per litre on Petrol	6.489
Introduce a SCT regime for LNG and revise the regime for HFO	1.415
Increase the specific SCT on cigarettes from \$12 per stick to \$14 per stick	0.574
Increase the Departure Tax to US\$35 from US\$14.8	5.3
PHASE 2	
Offsetting Measures	
Increase Excise on Pure Alcohol (from \$1,120 per litre to \$1,230 per litre)	0.403
Increase Excise on Tobacco Products (from \$14 per per stick to \$17 per stick)	0.826
Increases in Specific SCT on Fuels	7.459
Apply GCT at 16.5% to Group Health Insurance	1.884
Reduce the threshold for the application of GCT on the consumption of residential electricity from 350 kWh per month to 150kWh per month	1.498
Increase Motor Vehicle Licence and Registration Fees by 20%	0.464
Property Tax	3.9
Re-Impose Withholding Tax on General Insurance Premiums paid by Jamaican Residents to non-residents at a rate of 15%	0.99

Who Pays?

- The impact these measures will have on household consumption, will depend on the extent to which the goods and services are consumed by each household. The *JSLC* was used to identify the share of total expenditure that is allocated to the items that were taxed and not taxed by the typical household in each consumption decile.
- Based on data from the *JSLC*, the higher the income, the higher the share of consumption expenditure that was spent on the goods and services that were taxed. The typical household in the wealthiest two deciles (deciles 9 and 10) consumed more of the items that were taxed than any other decile, and the two poorest deciles, allocate the smallest amount of their consumption expenditure to the items that were taxed (Table 3).

Table 3: Items to be Taxed and Not Taxes as a share of Total Consumption Expenditure by Decile

Deciles	Items taxed	Items Not Taxed	Total
Poorest - 1	5.5%	94.7%	100.0%
2	9.9%	90.2%	100.0%
3	10.8%	89.2%	100.0%
4	11.2%	89.0%	100.0%
5	11.3%	88.8%	100.0%
6	12.6%	87.6%	100.0%
7	11.6%	88.8%	100.0%
8	13.8%	86.6%	100.0%
9	15.5%	84.6%	100.0%
Wealthiest -10	19.3%	81.3%	100.0%

3. RESULTS

Direct Tax Impact: Increase in the Income Tax Threshold

- The result suggests that all deciles will benefit from the increase in the income tax threshold, except the poorest decile, as the typical household in the poorest decile does not have anyone in the household that satisfies the three criteria needed to benefit (Table 4).
- The data suggest that the higher the consumption level (income), the higher the benefit. The wealthiest two deciles (deciles 9 to 10) will benefit the most, given that they are more likely to be formally employed and earn income above the previous income tax threshold, while the poorest two deciles (deciles 1 and 2), will benefit the least.

Table 4: Change in the Purchasing Power of Households from the Threshold Increase by Decile

Deciles	Per cent change in Purchasing power by decile
Poorest - 1	0.0%
2	0.4%
3	0.8%
4	0.4%
5	0.8%
6	1.2%
7	2.2%
8	3.8%
9	5.1%
Wealthiest -10	6.5%

Indirect Tax Impact

- **The data suggest that the indirect tax measures will negatively impact all the deciles, with the negative impact increasing the higher the consumption level (income) of the typical household.** The purchasing power of the typical household in the poorest decile is estimated to have fallen by 0.4% because of the tax measures, while the purchasing power of the typical household in the wealthiest decile is estimated to have declined by 2.1% (Table 5).
- Similar to the benefits from the income tax threshold increase, the cost associated with the increases in indirect taxes will be felt mainly by the wealthiest deciles. This is so because they consume disproportionately more of the items that were taxed, and they are more likely to be formally employed and above the previous income tax threshold.

Table 5: Impact of the Tax Increase on Purchasing Power of Households

Deciles	Percent Change in Purchasing Power
Poorest - 1	-0.4%
2	-0.9%
3	-0.9%
4	-1.0%
5	-1.1%
6	-1.2%
7	-1.1%
8	-1.4%
9	-1.7%
Wealthiest -10	-2.1%

Winners and Losers by Decile of Tax Reform Only (Direct and Indirect Taxes)

- Overall, the net change in purchasing power shows that the bottom five deciles will be worse off on average, with purchasing power declining by 0.1% (Decile 3) to 0.6% (Decile 4) and the top five deciles will be better off on average, with purchasing power remaining relatively flat for decile 6 to increasing by 4.4% for decile 10 (Table 6).
- The impact of moving away from a direct tax system to an indirect tax system has both winners and losers.

Better Off

- Households that have members that are formally employed and with income levels greater than the previous income tax threshold (\$592,800), will benefit the most.

Worse Off

- All households that did not benefit from the increase in the income tax threshold, that is, they do not have a member of the household that is formally employed with his/her income above the previous income tax threshold of \$592,800.
 - The decline in purchasing power for this group is larger the higher the consumption level (income), as the purchasing power of the wealthiest decile (decile 10) will decline by 2.1% and the purchasing power of the poorest decile (decile 1) will fall by 0.4%.

Table 6: Net Impact of the Tax Reform on Purchasing Power of Households

Deciles	Per cent Change in Purchasing Power
Poorest - 1	-0.4%
2	-0.5%
3	-0.1%
4	-0.6%
5	-0.3%
6	0.0%
7	1.1%
8	2.4%
9	3.5%
Wealthiest -10	4.4%

4. POLICY & PROGRAMMES TO ADDRESS VULNERABLE POPULATION

- In anticipation of the potential negative impact associated with tax reform on the purchasing power of the lower consumption (income) households, the GOJ has increased the Programme of Advancement through Health and Education (PATH) cash transfer payments.
- PATH forms part and parcel of the GOJ strategies to improve social protection. These strategies are expected to increase the participation of households in economic activities, while at the same time, cushion the impact of negative shocks to poorer households. The broad social protection social protection policy include:
 - The Jamaica Social Protection Strategy (SPS) was adopted in 2014 as the guiding strategic framework for effective social protection. The SPS seeks to manage social risks and address income security through interventions in the form of policies, programmes, projects and other initiatives characterized as preventive, mitigative, promotive, protective and transformative. There is close interaction with several economic and social sectors, including health, education, food security, and others, and a strong recognition of the role to be played by social protection in fostering economic growth. This growth can be positively impacted by social stability, market stimuli, and broader engagement of the labour force.
 - The social protection floor is the core of the SPS. It defines a set of provisions that guarantee basic social services and basic income security to all members of the society, and in particular, to the most vulnerable citizens. The social protection floor for Jamaica incorporates programmes and initiatives that provide safety net benefits, quality public services and basic amenities, as well as minimum social security. Currently, these include, inter alia, the PATH; school feeding programmes; Poor Relief Programme; Jamaica Drugs for the Elderly Programme, National Health Fund; National Minimum Wage Policy; Economic

Empowerment Grants for persons with disabilities etc. The floor is effected through several ministries, departments and agencies.

- The Poverty Reduction Coordinating Unit (PRCU) within the PIOJ was established in December 2013, based on a Cabinet Decision to respond to the need for a revision and updating of the policy and programmatic frameworks for poverty initiatives, and the imperative for an institutional focal point of responsibility to be identified within Government. The PRCU is tasked with the development and coordination of a new National Policy on Poverty and National Poverty Reduction Programme. There is now a new Draft National Policy on Poverty and National Poverty Reduction Programme (Green Paper), which together constitute a responsive instrument of the GOJ to institute a systematic and accountable framework to implement, coordinate, and monitor measures to address poverty and vulnerability. The National Policy provides a focused and overarching framework for addressing poverty, inclusive of principles, vision, goals, objectives, strategies, institutional and monitoring & evaluation frameworks. The National Programme on the other hand, outlines the parameters for delivery and provides focussed interventions, strategies, and actions towards achieving the policy goals. The draft policy has two goals, which are hinged in part on inclusive economic growth and development:

- GOAL 1: Extreme (food) poverty eradicated by 2022, and
- GOAL 2: National poverty prevalence reduced significantly below 10% by 2030

- The draft policy centres around seven thematic areas and objectives as follows:
 - Thematic Area 1: Social Safety Nets
 - Objective 1: Strengthen social safety nets to address extreme poverty-induced deprivations (including hunger).
 - Thematic Area 2: Human Capital Development

- Objective 2: Promote and expand human capital development among the poor and vulnerable (including children and persons with disabilities).
- Thematic Area 3: Livelihood Creation and Income Security
 - Objective 3: Enhance income security among the poor and vulnerable.
- Thematic Area 4: Food and Nutrition Security
 - Objective 4: Enhance food and nutrition security of the poor.
- Thematic Area 5: Basic Social and Physical Infrastructure
 - Objective 5: Strengthen basic social and physical infrastructure within poor rural and urban communities.
- Thematic Area 6: Psychosocial, Cultural, and Normative Advancement
 - Objective 6: Address psychosocial, cultural and normative influences on poverty.
- Thematic Area 7: Coordination and Capacity Building.
 - Objective 7: Strengthen coordination and capacity building among key stakeholders for poverty reduction.
- Under the first Medium-term National Poverty Reduction Programme, several strategies will be employed towards: addressing extreme poverty and basic needs; economic empowerment and human capital development; psycho-social, cultural and normative advancement; improving basic community infrastructure; and institutional strengthening for service providers. The programme will target a wide range of beneficiaries for various interventions. Among the target groups are: destitute and vulnerable persons; persons facing food poverty; persons with disabilities; unemployed and unskilled; working poor; small producers and small entrepreneurs; parents, government and non-government service providers; and rural and urban communities.

Actions for FY2017/18

- Specific initiatives and programmes include provisions for a larger Social Safety Net and improved Support for the Poor. Specifically, for FY 2017/18, the GOJ School Feeding Programme has been increased from 4 to 5 days weekly, for PATH beneficiaries, and the PATH conditional cash transfer benefits have been increased by about 0.2% of GDP. The coverage of persons in the bottom quintile of households (by consumption level) in the PATH programme is also being increased. Additionally, there will be a review of the efficiency and effectiveness of existing social security programmes to ensure that the children from poor households remain in school.
- An analysis of the FY2017/18 budget indicate that a total of \$16.1 billion was allocated to the major social protection projects, an increase of 12.6% relative to the previous fiscal year and represents the largest amount to be budgeted for this category in over 5 years. The budgeted allocation for Social Protection accounts for 31.3% of the total budget, up from 30.3% in FY 2016/17.
- Specific poverty-related programmes being supported under the 2017/2018 budget which represents some of the major allocations towards poverty reduction include:
 - PATH
 - School Feeding Programme
 - Poor Relief Programme
 - JSIF
 - Community Renewal Programme (CRP) and
 - Citizens Security and Justice Programme (CSJP)

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Table 7: Allocation for Social Projects, FY2017/18

MAJOR SOCIAL PROJECTS TO BE FACILITATED BY THE GOJ	REVISED BUDGET JSM FY2016/2017	BUDGET JSM FY2017/2018	% CHANGE FY2016/17 - FY 2017/18
Rural Economic Development Initiative - OPM	493.8	126.6	-74.4
Poverty Reduction Project III - OPM	116.0	0.0	-100.0
Poverty Reduction Project IV - OPM	100.0	100.0	0.0
Basic Needs Trust Fund (BNTF7) - OPM	609.2	234.4	-61.5
Basic Needs Trust Fund (BNTF8) - OPM	192.0	119.4	-37.8
School Sanitation Programme - OPM	202.5	200.0	-1.2
Jamaica Integrated Community Development Project - OPM	349.2	899.8	157.7
Justice, Security Accountability and Transparency Project (JSAT) - MNS	177.0	140.9	-20.4
Citizens Security and Justice Programme III - MNS	1,020.0	1,100.0	7.8
Citizens Security and Justice Programme III - MOJ	181.0	213.8	18.1
Justice, Security Accountability and Transparency Project (JSAT) - MOJ	145.6	325.0	123.2
Justice Undertakings for Social Transformation - MOJ	125.1	121.0	-3.3
Integrated Social Protection and Labour Programme - MLSS	243.0	211.3	-13.0
Social Protection Project II - MLSS	4,224.4	6,416.0	51.9
Social and Economic Inclusion of Persons with Disabilities	70.9	130.0	83.4
Integrated Support to Jamaica Social Protection Strategy - MLSS	1,493.4	1,522.5	1.9
Education System Transformation Programme - MOE	588.6	453.9	-22.5
Education Transformation Programme I- MOE	547.4	541.5	-1.1
University of Technology Enhancement Project - MOE	601.8	36.0	-90.7
Technology to Empower Individuals & Communities for Development - MOE	112.0	0.0	-100.0
Health Services Improvement - MOH	1,317.3	1,059.2	-19.6
HIV Prevalence in most-at-risk population reduced - MOH	361.6	492.3	36.1
Programme for Reduction of Maternal and Child Mortality (PROMAC) - MOH	256.7	549.6	114.1
Support to the National HIV/AIDS Response in Jamaica (formerly New Funding Mechanism) - MOH	624.0	744.2	19.3
Youth Employment in Digital and Creative Industries - MSTEM	112.1	304.4	171.5
Sub-Total MAJOR SOCIAL PROTECTION PROJECTS	14,264.7	16,063.8	12.6

PATH: Programme

- One of the specific social assistance programme that was increased in FY2017/18 by GOJ to mitigate the impact of moving away from a direct tax regime to an indirect tax regime is the PATH programme. The benefits under this programme was increased by 30% across each category (Table 8).
- This section of the note seek to assess the impact of the increase in PATH benefits on household consumption level for PATH households. Using the JSLC, persons that receiving PATH cash transfers payment were identified and placed in one of the following categories to estimate how much each household purchasing power will increase by as a result of the increase in the PATH benefits by 30%.

Table 8: Annual Values of the Proposed Increase by Category

Category	Grade	Sex	Annual Value of the Increase (S)
Education	1 to 6	Male	3,762.0
		Female	3,762.0
	7 to 9	Male	5,040.0
		Female	5,040.0
	10 to 13	Male	5,760.0
		Female	5,760.0
Health (Children 0-6 years)			3,600.0
Pregnant & Lactating			4,284.0
Elderly			6,210.0
Disabled			4,284.0
Poor Relief			4,284.0
Adult Poor			4,284.0
Minimum Protection Floor			1,440.0

Impact of Increase in PATH Cash Transfer Payments on Consumption by Decile

- When the impact of the increase in PATH cash transfer payments by decile is incorporated, the data reveal that (Table 9):
 - Approximately 75% of households on PATH are in the bottom 5 deciles, and as such, the increase in purchasing power caused by the increase in PATH cash transfer payment will reflect more strongly on households with lower consumption (income) level.

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- The poorest deciles (deciles 1 and 2) will benefit the most from the 30% increase in the PATH benefits, while the typical household in the wealthiest deciles (deciles 9 and 10), will not benefit from the increase in the PATH cash transfer payment.

Table 9: Impact of the Increase in Cash Transfers by Decile under PATH

Deciles	Per cent Change in Purchasing Power
Poorest - 1	1.6%
2	1.0%
3	0.4%
4	0.5%
5	0.3%
6	0.1%
7	0.1%
8	0.1%
9	0.0%
Wealthiest -10	0.0%

Net Impact of the Tax Reform and the increase in Cash Transfers Payments under PATH

- This section of the note seeks to analyse the net impact on purchasing power by decile that occurred from the tax reform and the increase in the PATH cash transfer payment (Table 10).
- The data revealed that the typical household in all deciles will be net beneficiaries from the tax reform and the increase in social assistance (PATH benefits) except decile 4.
- The typical household in the wealthiest deciles (deciles 9 and 10) will benefit the most, due to the magnitude of the benefit that they will receive from the increase in the income tax threshold. **However, these deciles benefit the least from PATH.**

Table 10: Net Impact of the Tax Reform and PATH benefit on households Purchasing Power by Decile

Deciles	Per cent Change in Purchasing Power
Poorest - 1	1.2%
2	0.5%
3	0.3%
4	-0.2%
5	0.0%
6	0.1%
7	1.2%
8	2.5%
9	3.5%
Wealthiest -10	4.4%

Net Impact of the Tax Reform on Non-PATH Households

- The increase in the PATH benefits will not benefit all households, as not all households in the bottom 5 deciles are on PATH. Therefore, this section, will look on the impact of the tax reform on Non-PATH households (Table 11).
- The typical households in deciles 1 to 5 that are not on PATH will be worse off, their purchasing power will decline by 0.5% to 0.9%.

Table 11: Net Impact on the Typical Household Not on PATH

Deciles	Per cent Change in Purchasing Power
Poorest - 1	-0.5%
2	-0.6%
3	-0.5%
4	-0.9%
5	-0.5%
6	0.1%
7	0.6%
8	2.7%
9	3.6%
Wealthiest -10	4.4%

5. Conclusion & Policy Recommendations

Summary of Findings

- The purpose of this discussion note is to assess the direct impact of the tax reform on the purchasing power of the typical household in each decile.
- The findings suggest that households with members that are **formally employed and whose income is above the previous income tax threshold of \$592,800 will benefit the most** from the moving away from a direct tax system to an indirect tax system. Households whose members are formally employed, will be net beneficiaries of the tax reform, as the gains from the increase in the income tax threshold will outweigh the cost of the increase in the prices of the goods and services they consume.
- Higher consumption (income) level households, where all household members are **informally employed, will face the largest decline in purchasing power** as they will not benefit from the increase in the income tax threshold, but the indirect tax measures

represents a higher share of their consumption expenditure, which means greater exposure to the increase in prices for goods and services cause by the indirect tax measures.

- As a result of the implementation of the tax measures alone, the lower consumption (income) level households will not benefit as in the case of decile 1, or benefit marginally, but will face an increase in prices because of the tax measures. The tax measures alone are expected to lead to a decline in the purchasing power of deciles 1 to 5.
- The increase in social assistance (PATH benefits) is expected to make the typical PATH household better off, that is, it will compensate for the decline in purchasing power that was caused by the tax reform. **However, NON-PATH households in the bottom 5 deciles will be worse off (see table 11).**
- Overall, the tax reform, when combined with the increase social assistance (PATH benefits), will largely have a net positive impact on the standard of living of the typical household in the country (Table 12).

Table 12: Summary of the Impact of GOJ's Tax Reform and Social Assistance (PATH) Measures on Purchasing Power of Household by Decile

Deciles	(1): Income Tax Threshold Measure	(2): Tax Compensating Measures	(3): Net Tax Effect (1 +2)	(4) PATH Benefit	(5): Overall Impact - Net Tax Effect and PATH Benefit (3+4)
Poorest - 1	0.0%	-0.4%	-0.4%	1.6%	1.2%
2	0.4%	-0.9%	-0.5%	1.0%	0.5%
3	0.8%	-0.9%	-0.1%	0.4%	0.3%
4	0.4%	-1.0%	-0.6%	0.5%	-0.2%
5	0.8%	-1.1%	-0.3%	0.3%	0.0%
6	1.2%	-1.2%	0.0%	0.1%	0.1%
7	2.2%	-1.1%	1.1%	0.1%	1.2%
8	3.8%	-1.4%	2.4%	0.1%	2.5%
9	5.1%	-1.7%	3.5%	0.0%	3.5%
Richest -10	6.5%	-2.1%	4.4%	0.0%	4.4%

Differences due to rounding error