ABSTRACT


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The objectives of this study are twofold. The first is to determine the equity impact of the tax reforms, carried out in Jamaica between the period 1985 to 1990. To achieve this objective, the incidence of the tax system was computed for the fiscal year 1988/89. The study employed information from the household expenditure survey (HES) of 1984 and other data sources to estimate the income distribution and the incidence of Jamaican taxes among households in various income classes. The incidence results were then compared with those from the pre-1986 tax incidence study conducted by Michael Wasylenko (1987) as one way of determining whether the equity aspects of the tax system had improved. The results, of this comparison, suggested that while the tax burden had been reduced for all groups, high income earners had gained the most, with the bulk of taxes being borne by middle income earners.

The second objective is to analyse the structure of the tax system, and the relationship between the tax structure and the tax burden in the light of the restructuring of both direct and indirect taxes. Among
the recent changes to the indirect tax system has been the introduction of the G.C.T in 1991. While its implementation lies outside of the period covered in this study, because of the fundamental difference between this form of taxation and the prior tax system, a discussion is made of its structure and possible impact on equity. The conclusion was that although there were a number of efficiency advantages as a result of the introduction of the G.C.T, sufficient provision had not been made to remove low income earners from the tax base.

The study also emphasises that the reforms which were influenced by supply-side tax policies, were undertaken in a period in which the Jamaican economy was undergoing a series of Structural Adjustment Programmes supported by the World Bank and International Monetary Fund (I.M.F). These programmes helped to influence the approach to fiscal and monetary policies in the period and thus, non-tax factors may have had a significant impact on the course of the reforms. Thus the study discusses the macroeconomic context in which the major tax changes have occurred.

The study concludes with a number of recommendations for further changes to the tax system in order to reduce the tax burden on middle and low income earners and to increase the level of administrative efficiency of the tax system.