



The impact of fiscal incentives over the last six years on Jamaican hotels in Montego Bay

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Introduction

- Fiscal incentives play an integral role in the economic development of most countries (Young, 1988; Shah & Slemrod, 1995)
- Especially, in developing economies because they serve as a means to attract domestic and foreign investments
- The government of Jamaica has provided fiscal incentives to various sectors in order to promote growth and development
- The tourism industry has largely benefited through the Hotel Incentives Act and then the new Omni-bus Incentives Legislation
- The Hotel Incentives Act provide Income Tax relief and Import Duties Concession for up to ten years (10) for approved hotel enterprises and fifteen (15) years for convention type hotels having an aggregate number of no less than 350 bedrooms (IDB WP128, 2010)

Introduction #2

- Benefits under the Hotel Incentives Act were facilitated through discretionary wavers by the Minister of Finance and Planning
- Could lead to nepotism and corruption → Hoteliers who support governmental policies
- The new Omni-bus Incentives Legislation was passed in 2013 and repealed all other Incentives Acts
- The new Omni-bus Incentives Legislation includes: Customs Act, Fiscal Incentives Act, Income Tax Relief Act & Stamp Duty Act
- But doubts have been casted on the effectiveness of incentive programs to attract Foreign Direct Investments (FDI)
- E.g. – Some scholars are of the view that once investors have decided on the investment location, incentives play a subsidiary role in the decision making process (Karagiannis and Salvaris, 2005)
- However, studies have found incentives to be major determinants of foreign direct investments (Young, 1988; Shah & Slemrod, 1995)

The Problem

- The country's economic measures are below expectation
 - Currency = US\$1 = J\$128
 - GDP per capita (US\$) = 5,003.8
 - Unemployment (% of labour force) = 13.7
 - Labour force participation (female/male %) = 57.6/72.1
 - Balance of payments (million US\$) = -1,110
 - Tourist arrivals at national borders (000) = 2,080

[Source: Department of Economics & Social Affairs, 2016]
- Foreign Direct Investments (FDIs) could bolster these economic measures

Tourism

- Jamaica's #1 foreign exchange earner
- The contribution of tourism to GDP was J\$128.3 billion or 8.1% of total GDP in 2014 and is forecast to rise to J\$211.2 billion or 11.6% of total GDP in 2025 (The 2015 World Travel and Tourism Council Economic Impact Report)
- In the same report, tourism contributed 82,500 jobs which accounted for 7.3% of total employment and is expected to grow to 130,000 jobs by 2025
- It is felt that the tourism sector has been promoted mainly through generous tax incentives schemes (Panadeiros & Benfield, 2010)

Benefits to Tourism

- Makes provision for:
 - Productive input reliefs
 - Exemption from additional Stamp Duty on prescribed list of goods
 - Capital allowance on specified assets
 - Employment Tax Credit (ETC)
 - Lower rate of Corporate Income Tax rate at 25%
 - Lower rate of General Consumption Tax (GCT) at 10% instead of 16.5%
- Others

Motivation

- There has been no empirical data to determine the effectiveness of fiscal incentives on investments in Jamaica

Research Questions

- The study seeks to assess the impact of fiscal incentives over the last six years on Jamaican hotels in Montego Bay
- The study also seeks to show how the financial incentives offered by the government contributes to the growth and development of the tourism sector and by extension the wide economy
 - How do fiscal incentives contribute to growth in the tourism sector in Montego Bay?
 - How do fiscal incentives provided to hotels contribute to a growth in GDP?
 - How does the fiscal incentives provided impact Foreign Direct Investments in the tourism industry?

Fiscal Incentives & Effect

- Fiscal Incentive refers to an exemption or relief, in respect of any tax, duty, fee, levy, fine or other impost, that is granted under any enactment
- These incentives may include tax holidays, concessionary tax rates, duty free exemption and capital allowances
- Doubts have been casted on the effectiveness of incentive regimes
- The cost of the incentives to economies includes loss of government revenue, cumbersome and costly tax administration, distortions in economic activities leading to low productivity, increased tax burden on other sectors, increased lobbying, corruption and difficulty in discontinuing incentives (Shah & Toye, 1978)

Definitions & Scope

Fiscal Incentives as defined by <i>The Fiscal Incentives (Miscellaneous Provision) Act, 2013</i>	<i>“an exemption or relief, in respect of any tax, duty, fee, levy, fine or other impost, that is granted under any enactment”.</i>
Jamaican Hotel as defined by the <i>Jamaica Tourist Board</i>	<i>“All hotels that are licenced by the Jamaica Tourist Board or approved authorities, and are operated within Jamaica”.</i>
Impact as defined by the <i>Business Dictionary</i>	<i>“A measure of the tangible and intangible effects (consequences) of one thing’s or entity’s action or influence upon another”.</i>
Six-year period	<i>“The six year’s period specifically relates to 2010 to 2015”.</i>

Literature Review #1

- Economic growth is the main objective of any country
- The tourism sector is highly dependent on other sectors, as a result well needed linkages can be formed thus making the tourism sector the largest contributor to the country's GDP.
- According to Sacks (2012) 71% of expenditure remains within the island
 - 33% of which relates to payment of salaries to locals or value-added services
 - 38% relates to local purchases minus imported components

Literature Review #2

- The tourism sector has linkage with construction, manufacturing, agriculture, finance and banking among others sectors
- Tourism drives 15% of all construction, 10% of the finance and banking sector, 20% of manufacturing and 21% of utilities (Sacks, 2014)
- It was found that, tourism is a driver of Jamaica's economic development; the sector contributed J\$38 billion in taxes to government, or 20% of total taxes
- The sector also generates J\$226 billion (US\$2.5 billion) from expenditure, of which about US\$2 billion relates to earnings from foreigners

Literature Review #3

- Incentives have been cited as a contributory factor to increased investment in countries such as Ireland, Singapore, and Mauritius
- Empirical studies such as Young (1988) for the U.S. and Shah and Slemrod (1995) for Mexico that have found incentives to be important determinants of Foreign Direct Investments
- The Fiscal Incentives Regime 2014 has empowered hoteliers to charge a reduced Value Added Tax (GCT) on guest accommodation and other services offered by a hotel
- The GCT rate on such taxable goods and services have drastically reduced from 16.5% to 10%.
- Incentives generate positive externalities on the economy such as R & D investments or development of public goods, (Fowowe, 2013)

Literature Review #4

- The new Omnibus Incentives have further paved the way for Foreign Direct Investments in tourism via a revision to Customs Duties and Tariffs paid by hoteliers
- This is targeted at the productive sectors and provides for the 0% duty on capital equipment and raw material (JAMPRO, 2014)
- Another study which included the Bahamas, Bermuda and the Cayman Islands looked at fiscal conditions (taxes) in tax havens that lured American investors to the shores of these countries (Hines & Rice, 1990)
- Fiscal incentives are believed to have played a vital role in the viability of the tourism sectors in economies, like India and Nigeria

Methodology - Survey

- A quantitative study
- Pre-test of the survey instrument was conducted with one hotelier in MoBay
- Justification to study Montego Bay = The influx of foreign investment in the industry in Montego Bay, coupled with the increase in the number of renovations and expansions in the city
- Data collection = Survey and secondary data
- Convenient sampling was used
- Unit of analysis = Firm = Hotels in MoBay
- Letters of consent were sent
- The survey instrument was self-administered
- Number of hotels sampled = 6/40
- Respondents were top executives and senior managers
- Microsoft Excel was used to do the analysis

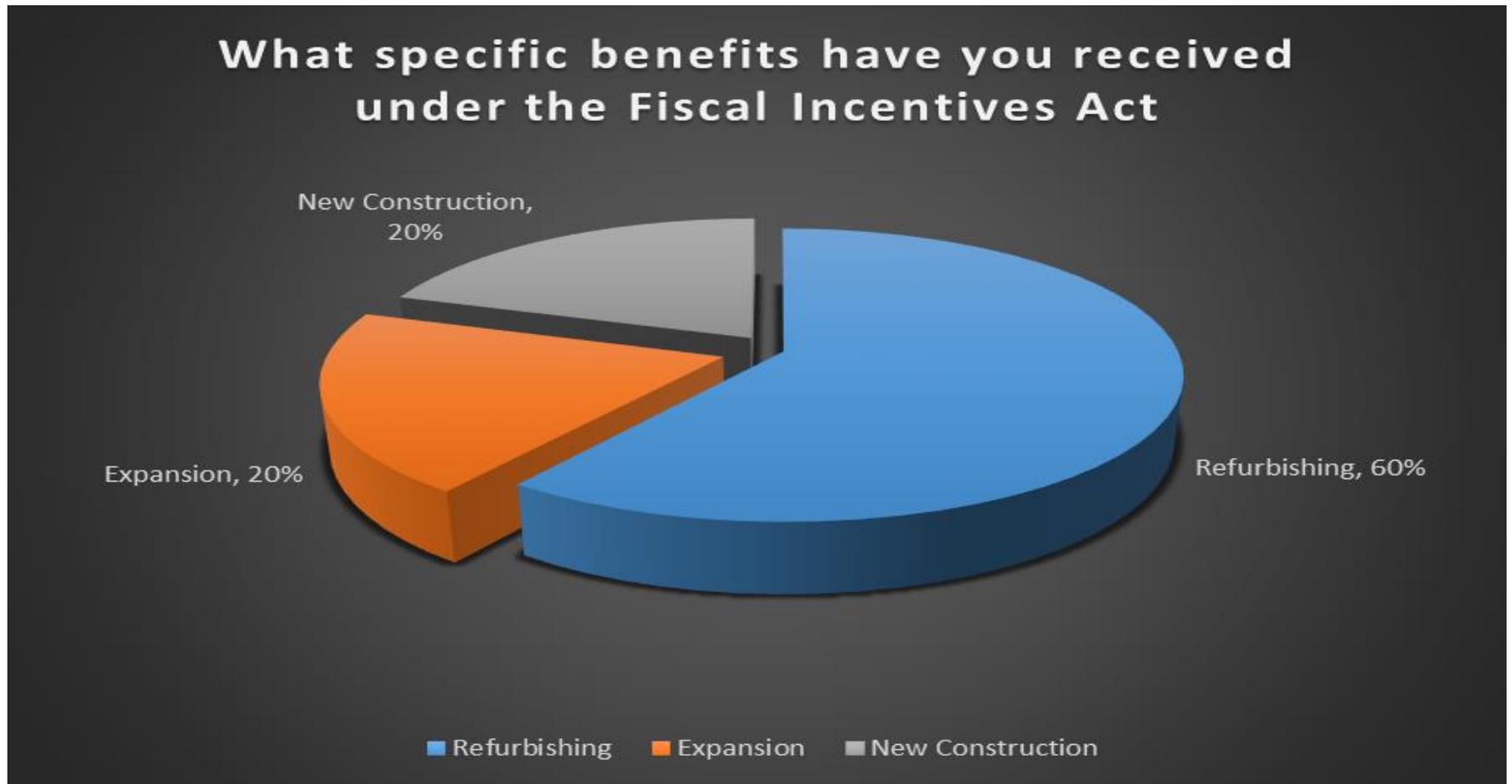
Methodology – Secondary Data

- Data was obtained from various websites:
 - The Jamaica Tourist Board
 - Statistical Institute of Jamaica
 - Tax Administration Jamaica
- Other

Findings

- The hotel incentives were offered to all hotels
- However not all hotels benefitted as the approval of these incentives were at the discretion of the Minister of Finance
- The Hotels Incentives Act provides a ten (10) year relief from GCT, Income Tax and import duty to new and existing hotels
- For existing hotels, they must be adding a minimum of ten (10) rooms or thirty percent (30%) of the existing number of rooms (whichever is greater)
- These hotels must intend to do substantial structural alteration
- Approved convention hotels with three hundred and fifty (350) or more bedrooms are entitled to Income Tax and Import Duty relief ranging from 11-15 years
- After the time has elapsed (10 or 15 years) hoteliers either had to do without the incentives or prove that they have 30% of their value in order to benefit a second time

Figure 1: Benefits Derived



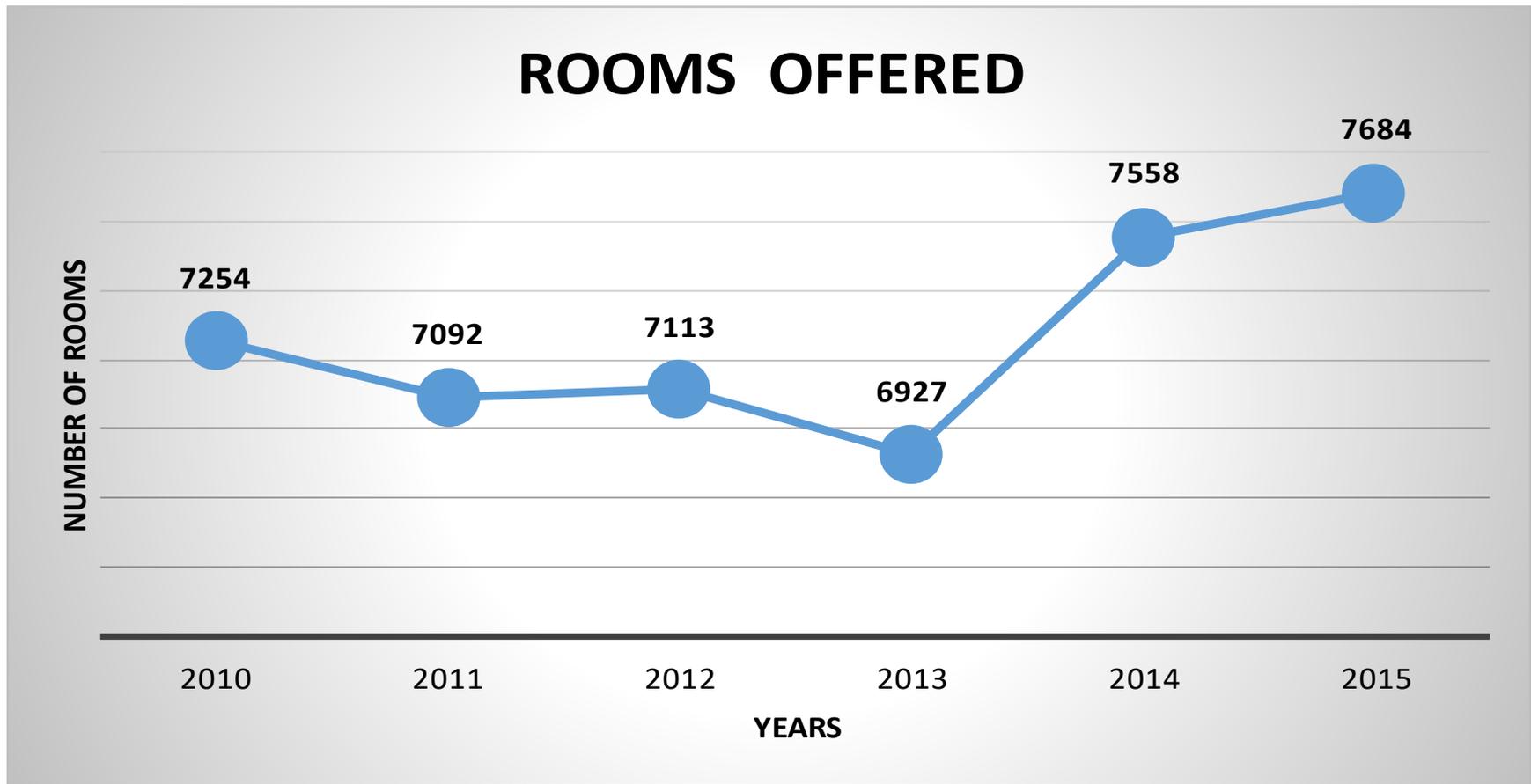
It was found that most hotels in Montego Bay that carried out refurbishing activities were able to do so via the benefits of fiscal incentives

Table 1: Physical Development in Montego Bay

Years	Usage
2012	<ul style="list-style-type: none"> • Refurbishing of Ritz Carlton
2013	<ul style="list-style-type: none"> • Construction of RIU Palace which saw the introduction of 200 new rooms. • Expansion of Ritz Carlton which lead the introduction of 190 new rooms. • Shutting down of at least three (3) large hotels, Breezes Montego Bay, Palmyra Resort and Ritz Carlton.
2014	<ul style="list-style-type: none"> • Refurbishing and changing of ownership of Ritz Carlton to Hyatt Ziva Adult only and Hyatt Zilara Faimily Resort. This brings about the reopening of 623 rooms.
2015	<ul style="list-style-type: none"> • Renovation and change of name of Breezes Montego Bay to Spanish Court 11 which lead to the introduction of 124 rooms. • Construction of a new hotel at Cornwall Beach under the Royal Decameron brand which saw the introduction of 142 new rooms. • Construction of five (5) over- the- water Bungalow by Sandals Royal Caribbean. • Construction of Riu Reggae which resulted in the introduction of 450 new rooms.

Figure 2: Expansion in Rooms in Montego Bay

(Source: Jamaica Tourist Board, ???)



Under the New Fiscal Incentives Act 2013, there has been significant increase as more hotels are been built, renovated, refurbished and expanded. The spike in the availability of rooms in 2014 occurred synonymously with the introduction of the New Fiscal Incentives Act.

Table 2: Key Performance Indicators

Source: Jamaica Tourist Board, 2014

KPI	2012	2013	2014	2015
Annual Hotel Room Occupancy	63.7%	70.9%	72.3%	73.0%
Direct Room Capacity	7,113	6,927	7,558	7,684
Average available Room Capacity	19,506	17,872	18,409	19,005

It is evident that there was a steady increase in the annual hotel room occupancy over the two regimes. The direct contribution made by Montego Bay over the period 2012-2015 has fluctuated. At the end of the old incentive regime there was a decline in the number of rooms that were available. This decline, according to JTB is as a result of several large hotels closing down during 2013. In 2014, the start of the new regime the number of rooms increased by 8.1% moving from 6927 in 2013 to 7558 in 2014.

Figure 3: # of Persons Employed

Source: Jamaica Tourist Board, 2014

The number of persons employed by hotels in Montego Bay for the Period 2010-2015

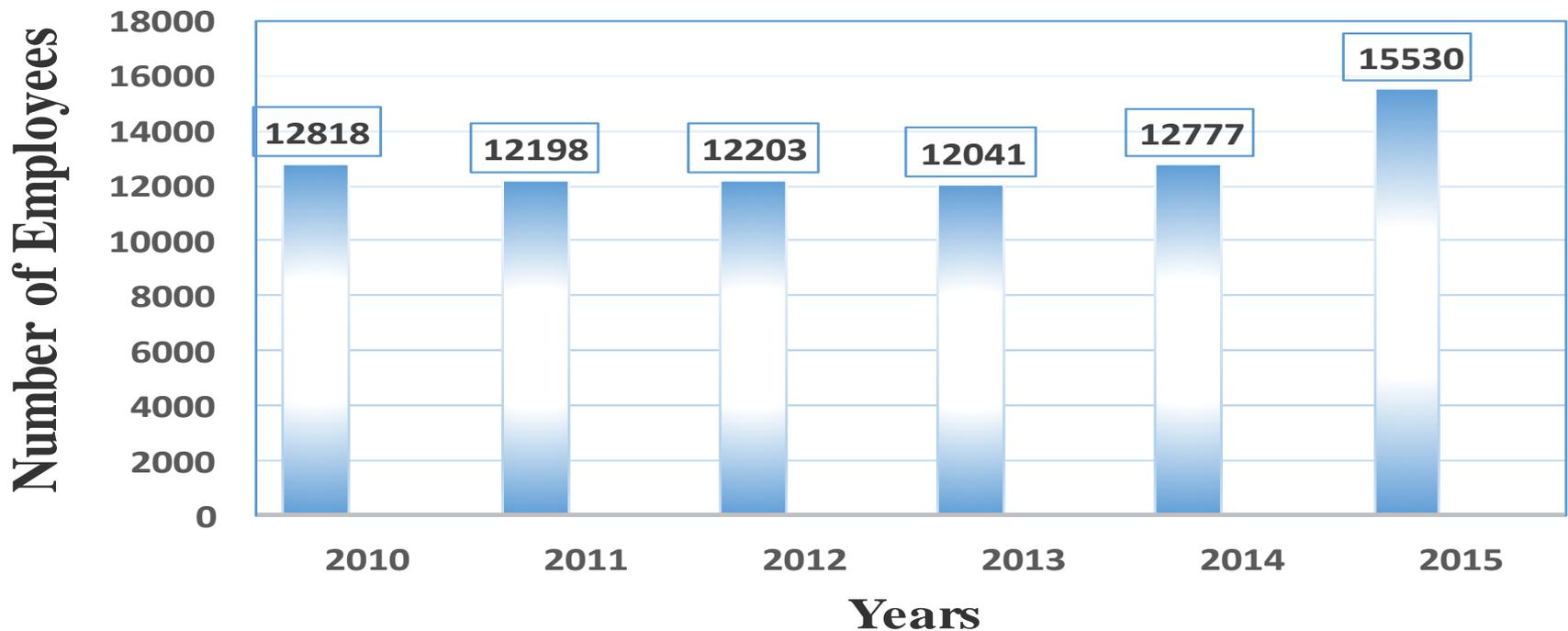


Table 3: Employment in Montego Bay

Source: Jamaica Tourist Board, 2014

	2012	2013	2014	2015
Direct Accumulated Employment	35,197	33,938	35,166	39,255
Direct Employment in Montego Bay	12,203	12,041	12,777	15,530

The number of employment directly provided by hotels under the Hotel Incentives Act 1968 and the New Fiscal Incentives Act 2013 have fluctuated over the period 2012-2015. This fluctuation may have been attributed to the fact that over the same period in questioning some major hotels ceased operations. During the period 2013 the number of employment increased marginally by 6% moving from 12,041 in 2013 to 12,777 in 2014. The total number of employment has been increasing over the period ever since.

Table 4: Foreign Direct Investment in the Jamaican Tourism Industry

Source: Tourism FDI, Bank of Jamaica - ????

Year	2010	2011	2012	2013	2014	2015	Average
Total FDI	228.0	218.0	413.0	594.7	591.5	794.5	472.1
Tourism FDI	71.8	7.5	5.8	103.8	136.7	146.5	78.7
Tourism as a % of Total FDI	31.5	3.4	1.4	17.5	23.1	19.7	16.7

Foreign direct investment in the tourism industry in Jamaica has shown an upward movement. FDI has averaged US\$78.7 million annually over the period 2010-2015, representing 16.7% of total foreign investment inflows over the same period

Discussion

- There has been a trend in recent years in the construction and acquisitions of large hotels by Spanish hotel chains as well as other international brands. The Jamaica Tourist Board Annual Travel Statistics (2014) revealed that after major refurbishing and expansion, the two resort properties previously owned by Ritz Carlton Hotel were sold to the Hyatt Ziva Adult Only and Hyatt Zilara Family Resorts. These hoteliers have made significant capital investments regarding expansions and refurbishments and have now opened with a combined total of 623 rooms

Contribution of the study

- Provide hoteliers with useful insights that will enable them to understand the impact of fiscal incentives on their operations, which can enhance the ability to make better and more informed decisions

Recommendation

- The Jamaican government needs to consider the spin-offs of giving fiscal incentives to the tourism sector and give longer Corporate Tax breaks by imitating Grenada's 45 years and Barbados 30 year's Corporate Tax breaks
- Award non-fiscal incentives to hoteliers
- Non-fiscal incentives could include, wage subsidies for hotel workers and training, subsidized electricity charges for hoteliers, provision of physical infrastructure and site preparation, and financing incentives such as giving loans at reduced rates and cash grants

Conclusion

- Fiscal incentives are believed to have played a vital role in the viability of the tourism sectors in economies, like India and Nigeria
- It has provided tax havens in the English-speaking Caribbean
- Jamaican hoteliers have benefitted from the fiscal incentives offered to the tourism sector in Montego Bay
- It is hoped that the study will provide useful insights to policy makers in Jamaica
- It is expected that the study will assist these policy makers to critically assess the impact of incentivizing the tourism sector with a view of improving the contribution it makes to GDP

Questions?

Thank You!