

Report Part Title: An Introduction to Jamaica

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Towards Property Tax Compliance: A Case Study of Attitudes Toward Paying Property Taxes in Jamaica

An Introduction to Jamaica

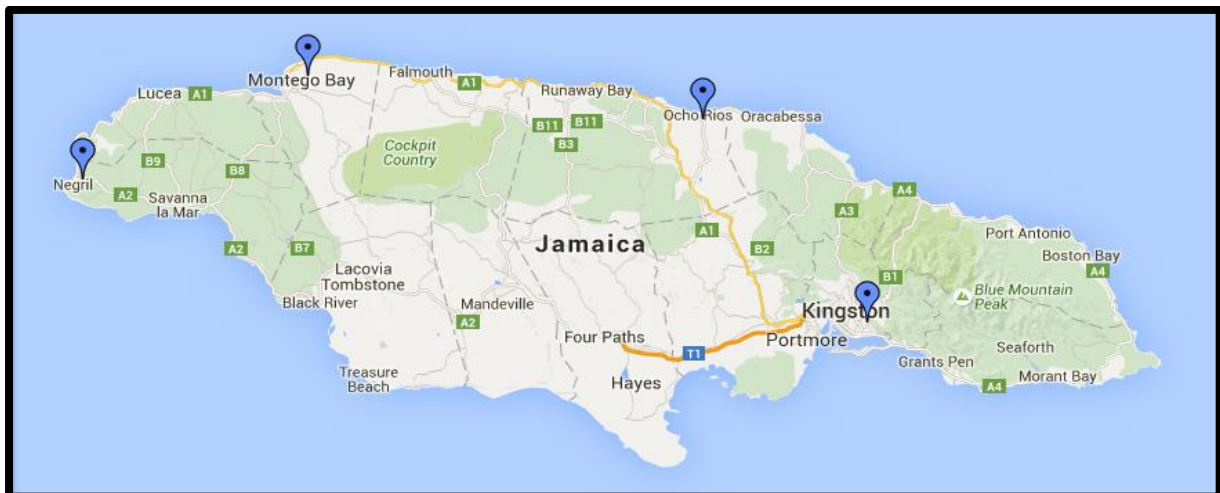
This section of the working paper provides an introduction to Jamaica and its socio-economic characteristics. It also discusses the administrative and legal framework of Jamaica's property tax system and the importance of the property tax to local government. The section concludes with an overview of property tax compliance in Jamaica.

History and Economic Background

Initially named Xaymaca (land of wood and water) by the Taino Indians, Jamaica was colonised in 1494 by the Spanish and in 1655 by the British. After the abolition of slavery in 1834, Jamaica remained a British colony for 127 years, until 1962. As a commonwealth country, Jamaica is headed by a prime minister and the queen's representative is the governor-general.

The island has an area of 4,240 square kilometres and is 145 km south of Cuba, and 191 km west of Hispaniola. Jamaica has 14 parishes and its capital is Kingston. This is illustrated in figure 1.

Figure 1: Detailed Map of Jamaica



Source: Google Maps (2016)

According to the Statistical Institute of Jamaica (2012) there were 2,711,476 persons living in Jamaica with 24.5 percent of the population living in Kingston and St. Andrew. According to the National Land Policy (1996) cited in Wynter (2014, 27) "80% of the island's land surface is mountainous. Forestry, shrubs and woodland accounts for 44%...agriculture and pasture 46%, mines and wetlands 6% with the remaining 4% occupied by urban and rural settlements."

After gaining independence on August 6, 1962, Jamaica experienced rapid economic growth between 1963–1969. However, in the 1970s the island suffered an economic depression, which affected the standard of living for Jamaicans significantly. In an environment of increased oil prices and an alignment to the communist bloc, Jamaica faced international scrutiny and precipitous devaluation of the local currency. As a result, Jamaica entered into an economic structural reform programme with the International Monetary Fund (IMF) in 1977. Between 1977 and 1998, Jamaica entered into 10 economic oversight programmes with the IMF (Atchoarena and McArdle 1999). In February 2010, Jamaica entered into another economic structural reform programme with the IMF. Thus far, this arrangement has borne fruit as Jamaica's inflation rate reached an all-time low of 3.6 percent in February 2016 (Bank of Jamaica 2016).

Land Tenure Practices

Like many developing countries which are a part of the Commonwealth, Jamaica has various types of land tenure practices; the most prevalent tenure systems being private rights, communal land rights and informal tenure. (Wynter 2014).

Jamaica's private land rights system comprises of freehold and leasehold tenure. Individuals may possess freehold tenure through ownership in fee simple individually, as joint tenants, tenants in common, or through a life interest. However, exclusive occupation and use rights are obtained through a lease, while shared occupation and use rights are obtained through a license.

Communal land rights also take two forms—ownership of lands by maroon communities (Stanfield et al. 2003) and 'family land' (USAID 2010). The National Land Policy (1996) explained that family land is institutionalised through the social relationships in a family, as undivided land is passed down from one generation of family members to the next. Thus, these individuals have customary land rights that are not formally recognised by statute. Squatting may be described as the unlawful occupation of land belonging to another. Squatting is regarded as an informal land tenure that is only illegal when a squatter continues to occupy property after receiving an eviction notice. According to USAID (2010), 20 percent of the Jamaican population are squatting.

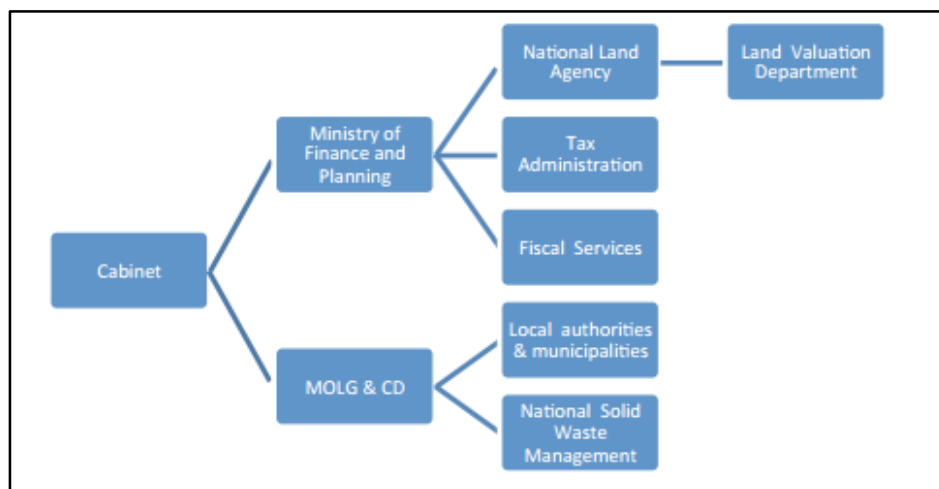
The Jamaican Property Tax System

Tax scholars have described the property tax as the legacy of colonialism (Andelson 2000; Wynter 2014). The property tax was first introduced in Jamaica in 1806 as a tax on quit rents, horses, land use, and stock. By 1890, it was realised that houses were being taxed in a regressive manner. Thus, in 1903, a self-assessed taxation system was implemented on land and buildings. However, in 1943, Jamaica moved towards land value taxation (LVT) with the Bloomberg Commission of Inquiry. By 1957, LVT was implemented with the passing of the Land Valuation Act (McCluskey and Franzsen 2001).

The Jamaican property tax is centrally administered by the Ministry of Finance and Planning and the Ministry of Local Government and Community Development (See figure 2). However, the administrative framework of the tax comprises of both ministries, government agencies (Tax Administration Jamaica and the National Land Agency), parish councils/municipalities, and a public body (the National Solid Waste Management Authority). The role of the various entities are as follows:

1. The Ministry of Finance and Planning through Tax Administration Jamaica (TAJ) and the National Land Agency are responsible for the valuation of parcels, tax assessments, tax exemptions, budgeting, collections, enforcement, and compliance.
2. The Ministry of Local Government through parish councils/municipalities, TAJ and the National Solid Waste Management Authority (NSWMA) are required to manage the distribution and allocation of the tax, garbage collection services, street lighting, administration of the tax, and to undertake enforcement activities.

Figure 2: Departments and Ministries Involved in Property Tax Administration



Source: Wynter (2013, 45). Notes. MOLG & CD is Ministry of Local Government and Community Development

The legal framework of the tax comprises of six legislations—The Tax Collection Act 1867, the Quit Rents Act 1896, the Parochial Rates and Finance Act 1900, the Property Tax Act 1903, the Land Valuation Act 1957, and the Land Taxation (Relief) Act 1959 (Wynter 2014).

The aforementioned legislations govern the property tax as follows:

1. *The Tax Collection Act 1867*. The act regulates tax collection and the responsibilities of tax collectors and those working with tax collectors.
2. *Quit Rents Act 1896*. This legislation gives tax collectors the right to seize a property for outstanding property taxes.
3. *The Parochial Rates and Finance Act 1900*. The act manages the payment of property tax revenue (i.e. tax liability, penalty, and interest payments) in the Parochial Revenue Fund.
4. *Property Tax Act 1903*. This legislation regulates the delivery of tax assessments and notices to tax payers and the payment of property taxes.
5. *The Land Valuation Act 1957*. It manages the land valuation process, the frequency of revaluation exercises, and the objections and appeals process.
6. *The Land Taxation (Relief) Act 1959*. This governs the derating (reduction) and exemption of the property tax.

The property tax has a graduated scale which comprises of three tax bands that is determined by the central government. Table 1 outlines Jamaica’s property tax rates.

Table 1: Property Tax Rates in Jamaica

Property Values (JMD)	Rate Scales
Where unimproved value is less than or equal to \$100,000	\$1,000 is charged
Where unimproved value is greater than \$100,000 but less than or equal to \$1,000,000	<ul style="list-style-type: none"> • \$1,000.00 is charged for the first \$100,000 • For every dollar thereafter 1.5% is applied
Where unimproved value is greater than \$1,000,000	<ul style="list-style-type: none"> • \$1,000.00 is charged for the first \$100,000 • For every dollar thereafter up to \$1,000,000 1.5% is applied • For every dollar in excess of \$1,000,000 (\$1 million) 2% is applied

Source: Tax Administration Jamaica (2014). Notes. Data compiled by research team

The Importance of Property Tax Revenue to Local Government

Like in many other countries, property tax revenue contributes significantly to the fiscal health of local authorities. Osei (2002) contends that 75 percent of local government revenue came from the property tax in the 1960s. This is in keeping with Sepulveda and Martinez-Vazquez (2012) who argued that the property tax is a critical income source for local authorities.

In 1973, the local government took control of the tax and since then it has been centrally administered. As a result, the government provided deficit grants to parish councils, which covered 94.5 percent of the budget for local authorities (Osei 2002).

By 1984, the role of Jamaica’s local government deteriorated as its major functions were transferred to central government entities (McCluskey and Franzsen 2001). This reduced the fiscal stability of local authorities and as such, in 1988 local government reform came to the forefront of the government’s national and political agenda. With the general down turn of the economy between 1990 and 1992, it was clear that the fiscal health of local authorities was at risk. This was evident when property tax revenue only amounted to 21 percent of the total figure needed to provide local services (Osei 2002). In response, the central government in 1993, under the Local Government Fiscal Policy Reform Project, allowed authorities to set and amend licence and user fees since.

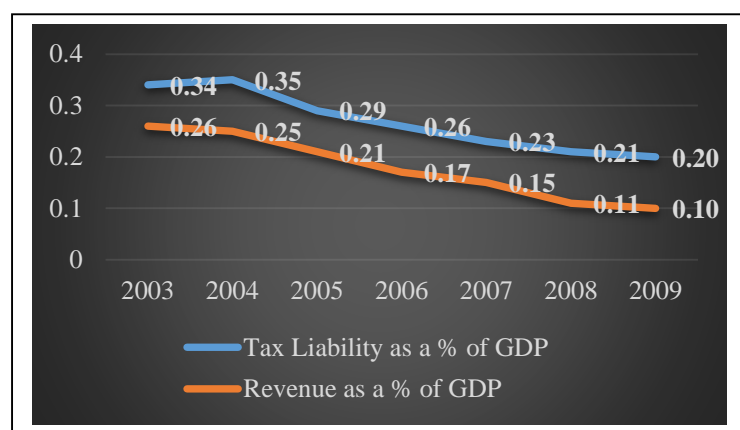
It may be argued that boosting the autonomy of local authorities improved their fiscal health. In 1997/98 fiscal year, the estimated size of the fund was J\$800,000,000. Although, the fund increased significantly, Osei (2002) commented that mayors of the parish councils were dissatisfied, because only 66.66 percent of revenues (from the Parochial Fund) were distributed to local authorities. This situation implies that decentralisation not complemented by the required financial capacity may be a futile endeavour. Stanfield et al. (2003) implicitly illustrated the importance of local authorities of having good fiscal health. Their study on the property tax revenue in Iowa, Nebraska, and Arkansas, showed that in the long term, additional and stable income streams are needed from wide tax bases to complement the property tax and ensure the sustainability of local authorities.

In Jamaica, the property tax is used for “the maintenance and expansion of street lighting, collection and disposal of solid waste, community infrastructure and civil improvements, administration of local authorities, repairs to fire stations and the rehabilitation of parochial/farm roads” (Ministry of Local Government and Community Development 2013).

Overview of Property Tax Compliance in Jamaica

McCluskey and Franzsen (2001) implied that low property tax compliance is not a recent phenomenon in Jamaica. Their study suggested that between 1992/1993 and 1996/1997, property tax compliance ranged from 45 percent to 55.7 percent respectively. Sjoquist (2007) opined property tax revenue as a percentage of gross domestic product hovered between 0.18 percent and 0.23 percent, while property tax collections increased from \$524.7 million JMD to \$1.489.7 billion JMD over the period 1997/1998 to 2002/2003. Additionally, the Private Sector Working Group (2012) position paper on tax compliance in Jamaica, indicated that property tax revenue as a percentage of gross domestic product declined by 61.5 percent, from 0.26 percent (in 2003) to 0.10 percent (in 2009). This is reflected in figure 3.

Figure 3: Property Tax Compliance in Jamaica 2003–2009



Source: The Private Sector Working Group of Jamaica (2012)

A similar trend of dismal compliance rates was observed with compliance data received from the Ministry of Local Government and Community Development for the period 2009/10 and 2013/14. Over the period, average compliance rates for all collectorates, ranged from 39.45 percent (in 2009/10) to 44.91 percent (in 2013/14). This is presented in table 2. Matalon (2012) cited in Dunkley (2012) lamented that he was having difficulty understanding why “the property tax moved from contributing 3.5% of the country’s Gross Domestic Product (GDP) in 2003 to just about 0.1 per cent of GDP in 2009.”

On May 1, 2015, TAJ reported at a Jamaica Information Service (JIS) think tank that \$7.45 billion JMD was earned as property tax revenue for the 2014/15 fiscal year. The entity attributed the increase in property tax collections to the collaborative efforts of TAJ, the Ministry of Local Government and Community Development, the Kingston and St. Andrew Corporation (KSAC), and local authorities. At the same JIS think tank, the director of revenue enhancement and mobilisation at the Ministry of Local Government and Community Development stated “unlike most first world countries, which have a compliance rate of almost 100 percent, Jamaica is still struggling at the 50 percent range” (Thomas 2015 cited in Eubanks 2015).

Table 2: Compliance Rates between 2009/10 and 2013/14

Collectorate	2009–10	2010–11	2011–12	2012–13	2013–14
1	46.48	50.77	46.85	34.88	50.94
2	70.97	71.64	72.69	66.06	82.85
3	50.37	56.07	50.42	50.74	55.85
4	36.62	41.57	38.59	37.18	40.71
5	24.38	43.16	41.07	25.19	41.43
6	42.50	44.38	40.62	43.02	44.54
7	37.58	41.21	36.73	34.39	41.48
8	38.78	43.96	42.09	43.18	48.18
9	29.69	31.52	27.09	30.14	35.94
10	47.21	52.88	44.84	45.35	49.52
11	36.33	42.38	38.44	35.30	41.50
12	29.14	37.10	38.13	38.35	38.26
13	35.92	44.60	43.33	41.69	48.06
14	25.75	30.41	28.07	11.87	33.48
15	43.55	48.48	43.43	44.05	47.95
16	39.70	55.60	51.39	49.12	52.95
17	41.06	48.06	43.22	43.47	47.03
18	44.52	46.14	41.21	39.88	39.70
19	39.45	40.65	39.21	37.31	39.70
20	36.28	38.60	35.78	35.86	38.12
21	42.48	44.86	41.93	40.52	43.81
22	28.87	32.65	32.57	29.55	32.90
23	39.95	44.45	41.11	40.16	41.03
24	24.93	25.43	23.02	22.20	24.04
25	31.61	33.35	30.92	29.70	36.26
26	35.01	40.76	35.46	35.24	38.70
27	30.88	34.03	31.81	32.63	35.22
28	36.22	40.25	35.30	33.07	38.86
29	38.44	50.62	45.39	35.34	48.39
Avg. compliance rate	39.45	44.84	41.45	38.77	44.91
Maximum	70.97	71.64	72.69	66.06	82.85
Median	37.58	43.16	40.62	37.18	41.43
Minimum	24.38	25.43	23.02	11.87	24.04

Source: Compliance rates calculated based on the tax liability, revenue and arrears provided by the Ministry of Local Government (2015). Notes: Avg. compliance rate is average compliance rate.