

Guyana: 2020/21 budget

Guyana

September 09, 2020



Overview

Navigating the tides of change - Guyana's 2020 National Budget Commentary

In December 2019, Guyana officially became an oil-producing country and had its first lift of oil a few months later in February 2020. The uncertainties of the global pandemic, depressed global energy prices as well as other turbulent domestic matters have resulted in a slowdown or pause in onshore and offshore activity. To date, Guyana had three lifts of oil with a fourth expected in November 2020.

For the management of the natural resource wealth for the benefit of its people, present and future, the Government of Guyana established in January 2019 a sovereign wealth fund known as the Natural Resource Fund (NRF). As of August 2020, contributions to the NRF stood at over US\$150 million from Guyana's initial 3 lifts. In fact, foreign direct investment in Guyana was largely driven by the oil and gas sector and exponentially increased by US\$463.6 million in 2019, when compared with 2018, and therefore reaching US\$1.7 billion overall.

However, given the volatility in global oil and gas prices, a shift in strategic focus by some of the major oil and gas multinationals to renewable energy, depressed global markets and economies as described by the International Monetary Fund, it is clear that continued focus on diversification of the economy will be critical to Guyana's mid to long term success.

Prior to the energy sector developments, a large part of Guyana's economic activity and revenue derived from the gold, precious metals and other mining, forestry, agriculture and agro-processing, and manufacturing drove the country's revenue collections.



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All of which would have been impacted to varying degrees in the last few months as global commodity prices adjusted to the weakening of demand as a result of the global pandemic. This is likely to result in both the curbing of revenue collection and slightly slower economic growth than initially anticipated until at least mid to late 2021.

Against this background, the Acting Finance Minister, the Honourable Bishop Juan A. Edghill, Minister, Ministry of Public Works, presented the Government's inaugural budget of Gy \$329.5 billion to mark this Government's new term in office. The 2020/21 budget was delivered under the theme "Our Plan for Prosperity: Protecting our People in a COVID-19 Environment; Strengthening Democracy and the Rule of Law; Incentivising Economic Growth and Job Creation; and, Enhancing Welfare."

This budget was read in the context of estimated Tax revenues of Gy \$214.5 billion, estimated non-tax revenues of Gy \$11.9 billion and external debt of US\$1.31 billion as at the end of 2019. Additionally, according to the Hon. Minister, Guyana is projected to have Real GDP growth by between 48.4 percent and 51.2 percent, while the non-oil economy is expected to contract by between 1.4 percent and 4.3 percent.

The Minister went on to outline the measures that the Government hopes will combat COVID-19 and stimulate the economy and increase overall economic activity. Notably, there were extensive and specific incentives announced for the construction and infrastructure sector, Agricultural and related sector, extractive industries, education and health care sectors.



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Some of the key infrastructure projects include expansion of the network of roadways, the expansion and operational modernisation of the airports and seaports. Without the right infrastructure, the country's growth could be stagnant in spite of the expected increases in revenues from the energy sector and overall estimated Real GDP Growth. Notably though, Minister Edghill reiterated Government's recent announcement that the Local Content Policy is being reconsidered by a committee formed specifically for this purpose. This has been a key area of focus for foreign investors, and we look forward to clarity on this policy in due course.

It was also noted that the Government proposes to focus on liberalising the telecommunication sector and push ahead with the digitalisation of the country through a number of projects. The benefits from this may augur well for transparency, accountability and efficiency in the public sector. Of course, in a COVID-19 world, this will be essential for boosting online education/ learning and remote working to allow for social-distancing practices.

From the general population perspective, several measures announced provided for grants/cash payments being made to qualifying Guyanese citizens coupled with the removal of Value added Tax and other taxes on essential and other goods, services and transactions such as education, electricity and water.

We are pleased to provide our 2020 Budget Commentary in which we summarise the key tax measures announced by Minister Edghill. In this regard, PwC Guyana's Tax team stands ready to discuss how the proposed measures could impact your organisation, so please do not hesitate to contact us.



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Value Added Tax measures



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The specific VAT measures announced by the Honourable Minister are as follows:

- Removal of VAT on electricity and water consumption.
- Removal of VAT on building and construction materials
- Removal of VAT on cellular phones
- Removal of VAT on certain machinery and equipment
- Removal of VAT on all terrain vehicles (ATV) to be used for mining, forestry, agriculture and manufacturing
- Reversal of VAT at 14% on all exports.
- Removal of VAT on fertilisers, agrochemicals, pesticides
- Removal of key Inputs to be used in the poultry industry and
- Zero-Rating of the poultry industry
- Removal of VAT on medical supplies



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Value Added Tax measures

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PwC commentary

VAT, as an indirect tax, is generally viewed as onerous to those in any country that are required to pay the same, especially where there are no mechanisms to reclaim it as an expense. From its introduction in 2007, there have been several changes to the VAT regime. Prior to this budget presentation, these changes include:

- a reduction of the rate in 2017 from 16% to 14%;
- an increase in the VAT registration threshold from Gy\$10 million to Gy\$15 million;
- expanding the exemption and zero rating of several items; and
- the imposition of the tax on some supplies that were previously exempted or zero rated e.g. electricity and water.

The Honourable Minister in his presentation announced several measures which he said are geared towards stimulating certain sectors of the economy, making certain supplies more affordable and ultimately, promoting diversification in the economy.

While arguably VAT registrants will not obtain any direct cost savings from some of the measures, it ought to have a positive effect on their cash flows. For smaller entities and/or individuals who do not meet the VAT registration threshold (Gy \$15,000,000/US\$ 75,000 approx.), the measures should result in direct cost savings on certain essential supplies and the purchase of machinery and equipment in certain specified sectors.



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PwC commentary

Further, the removal of VAT on these machinery and equipment will also reduce the import cost of these items and should reduce the capital expenditure of companies or individuals purchasing them. Thus, the additional capital will be available to be invested in other areas of their businesses.

We nevertheless await further details on some of the measures for example, whether all equipment and machinery will qualify, whether customs duties relief will also be granted and generally what measures will be put in place to mitigate abuse.



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Corporate Income Tax measures



Overview of measure

While not extensive, the Honourable Minister announced some measures that are intended to stimulate investment in certain non oil and gas sectors. These measures are as follows:

- Granting of tax concessions for investments made in agro-processing facilities, cold storage and packaging.
- Removal of 25% corporation tax for private health facilities.
- Removal of 25% Corporation tax for private educational institutions.
- Special Incentives for corn and soybeans agriculture.
- Corporate tax relief to financial institutions to increase the limit for low income household loans.
- Special incentive package to attract new hotel investment.



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PwC commentary

Diversification from an oil and gas based economy is always strongly encouraged to mitigate against volatile global energy prices and markets and moreover, because oil and gas is a finite resource and it will be critical for Guyana to avoid the same pitfalls as some resource rich countries who did not utilise their energy revenues wisely.

Further, as the Guyana economy expands and develops, the promotion of education and affordable healthcare and the access to the same for all citizens are important building blocks for any developing economy. The removal of Corporation Tax from private education and healthcare institutions will result in a reduction of their operating costs which they can pass onto their customers in the form of a reduction of tuition and healthcare cost. This can go a long way in making private education and better healthcare more accessible to all citizens especially at this time as the world battles the COVID-19 pandemic. This measure may also provide an incentive to attract entrepreneurs/organisations who wish to invest in establishing private educational and private healthcare institutions, which would also create more job opportunities and increase the options available to the population.



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Personal Income Tax measures



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The current personal income tax rate in Guyana continues to be one of the highest in the Caribbean (28/40% depending on the level of chargeable income). The table below provides a quick snapshot of the personal income tax regime as it currently applies:

Rate of tax	28% for chargeable income less than Gy\$ 1,560,000 40% for chargeable income in excess of Gy \$1,560,000
Personal allowance	Greater of Gy\$ 780,000 or $\frac{1}{3}$ of income
Withholding Method	PAYE system
Tax Due Date	14th day of month following payment
Allowances available	Telephone, medical, airfare



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The Honourable Minister made no pronouncement on Government's plan to review the existing personal income tax regime but rather focused on bringing some relief to lower and middle income individuals **through increasing the threshold for mortgage interest relief from Gy\$ 15 million to Gy\$ 30 million**



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Other measures



Overview of some other fiscal measures

- Provision of Gy \$25,000 COVID-19 grant to every qualifying household
- Reversal of prohibition against importation of half-cut vehicles, vehicles over 8 years old and used tyres
- Reduction in license fee by 50 percent for any license that was increased after 2014.
- Removal of police clearance requirement for miners to transport fuel in their own vehicles
- Removal of requirement to register and take-out road license for mining equipment
- Change of log export policy to allow saw millers to export logs
- Provision of a uniform voucher allowance will be doubled to Gy \$4,000 per child
- Reversal of land lease fees across all sectors and reversal of all water charges to the 2014 rates
- Reversal of land taxes and drainage and irrigation charges back to the 2014 rates
- Allocation of \$3 billion for the recapitalisation of GuySuCo and an additional \$2 billion as required.
- The implementation of a programme that will see 25,000 solar units being distributed;
- Resumption of the Amerindian land titling programme.
- Establishment of an Amerindian Development Fund of Gy\$800 million
- Effective January 2020, increase in school cash grants to Gy \$15,000 per child
- Increase in old age pension to Gy \$25,000
- Removal of water charge for pensioners
- Special bonus for joint services



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We have a long history of operating in the Caribbean



Caribbean territories
8



Caribbean locations
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1,200+



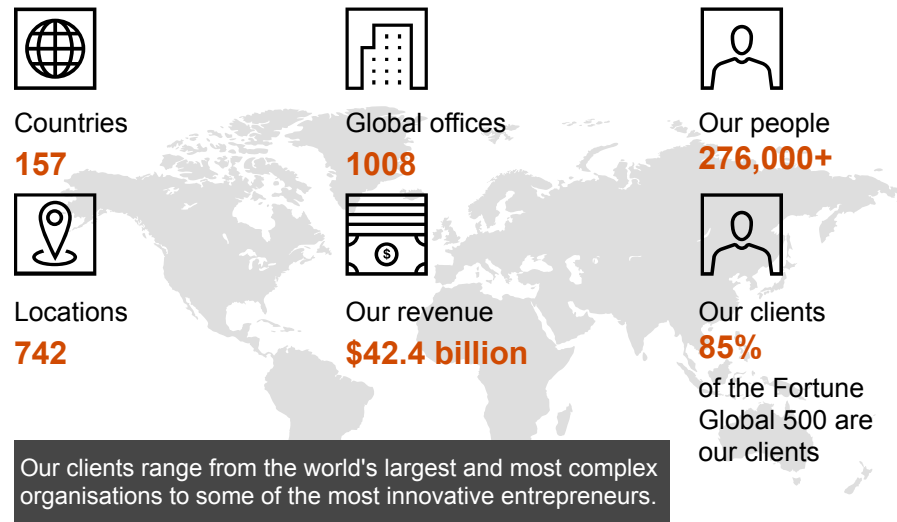
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