

# Guyana 2019 budget commentary: The path to economic growth & stability

November 2018



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## Introduction

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Amidst a mixture of great expectation, cautious optimism and some sceptics, the Finance Minister, the Honourable Winston Jordan, presented the government's fifth and penultimate budget for its current term in office. The 2019 budget was delivered under the theme "Transforming the Economy, Empowering People, Building Sustainable Communities for the Good Life". With first oil looming on the horizon, Guyana has a golden opportunity to transform its increasingly buoyant economy into a well-diversified machine of economic growth and stability. It cannot be underscored enough that good governance and prudent fiscal management by any government are key ingredients if Guyana will be successful.

The Honourable Minister in his speech, set out the strategic approaches that the Government are to garner to position Guyana for future growth and development. Against this background, he announced the budget priorities as:

- (i) institutional strengthening across sectors, including strengthening public investment management
- (ii) expanding opportunities for businesses to grow and flourish, and
- (iii) supporting the government's green initiatives and aiming to support the development of the non-oil sector.

This is in recognition of the fact that diversification is critical so that the development of the non-energy sector lays the foundation for a resilient and sustainable economy. Accordingly, the Minister announced that it is the government's intention to measure growth against the non-energy sector.

Maintaining a deficit marginally improved from the previous budget, the government continues to build on its strategic framework. Further, the upswing of the economy is ripe with opportunities for institutional programmes and measures that will ultimately foster and support sustainable development. One of the key areas of focus is on tax reform and the strengthening of the administration of tax with the introduction of certain key initiatives such as the establishment of the Petroleum and Large Tax Business Unit (PLTBU) and the impending Oil and Gas unit. This is a step in the right direction but of greater importance is to implement a robust fiscal framework that draws from international best practices and at the same time is configured to reflect the local realities and needs.

We have set out below, a summary of the key macro-economic factors that frame the current environment as well as the salient fiscal measures announced by the Minister.

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## Macro-economic factors

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- Real GDP Growth of 3.4% for 2018; up from 2.1% growth in 2017.
- Performance by sector:
  - Agriculture, Fishing and Forestry: growth of 1.1%
  - Extractive Industries: contraction of 2.3%
  - Manufacturing: growth of 0.9%
  - Construction: projected growth of 12%
  - Services
    - Wholesale and Retail: projected growth of 6.2%
    - Other Services: projected growth of 15%
- Balance of payments: Capital Account surplus of US\$283m (net medium and long term capital to the private sector).

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## Inflation

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The Minister specifically acknowledged that there is potential to meet and possibly exceed the inflation target of 2.5% (currently at 2%). This is one of the natural outcomes of the several simultaneous injections into the economy, combined with an increase in wages and a reduction of taxes in an environment where the saving rate is already low and household credit and mortgage loans are increasing. He has expressed confidence that should this happen, the Government can take the appropriate measure to stabilise the rate.

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## Recurrent expenditure and debt management

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The Government should carefully note that the total projected revenue is expected to be GY\$238.3bn (US\$1.14bn<sup>1</sup>) based mainly on cyclical commodities while the recurrent expenditure by itself is at GY\$221.8bn (US\$1.06bn). In a downturn, the government may find itself faced with commitments for which the revenue may be lacking. However, we note the public debt (domestic and external) together with the debt servicing commitments remain manageable at this time.

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## Employment

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Investment has been made in increasing the level of self-employment by providing training to 1,965 persons in the ten administrative regions resulting in over 1,300 businesses being established. This is seen as an important drive in the face of the contraction of public sector employment due mainly to the ongoing restructuring exercise at the Guyana Sugar Corporation (GUYSUCO).

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## Foreign exchange

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The GYD depreciated against the USD by 1% from January 2018 to October 2018. This should not have too great an impact on debt servicing given that the overall external debt-to-GDP ratio decreased from 34.9% in 2017 to 34.2% in 2018 and the fact that the GYD appreciated against both the GBP and the EUR by 2.3% and 3.6% respectively. However, exporters to the UK / European Union may be impacted by the exchange rate movement.

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## Key fiscal measures

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- (A) Companies utilising alternate energy technologies, renewable energy options such as gasified to use biomass or items using wind, solar or water energy:
  - (i) Wear and Tear Allowance to be granted for the write off within two years
  - (ii) Waiver of import duties and VAT on new equipment.  
These will take effect from 1 January 2019.
  
- (B) Hybrid and electric vehicles exempted from excise tax in 2017 but now:
  - (i) Custom Duty Relief to be granted for cars with 2000 cc
  - (ii) VAT and Custom Duty Exemption from changeover kits (gas or diesel) to hybrid or electric
  - (iii) Waiver of Excise Tax for electric motor cycles.

If vehicles are modified within two years to accommodate gas or diesel, full duties and taxes will be payable.

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<sup>1</sup> Figures converted into US dollars using the Bank of Guyana exchange rate of the Guyana dollar to the US dollar stood at \$208.5, in October 2018 as included in the 2019 Guyana Budget Speech, delivered by the Honourable Winston D. Jordan, M.P. Minister of Finance, 26 November 2018.

- (C) Income tax threshold increased to the higher of, GY\$780,000 (US\$3,741.01), or one-third. This will take effect for income year 2019.
- (D) Exemption for Public Officers/ Officials - vehicles that are less than four years old will be subject to :
- 0% excise tax for vehicles up to 1499 cc
  - 10% excise tax for vehicles up to 2000 cc.
- (E)
- (i) GY\$5m (US\$0.02m) cap of tax credit to be given to remigrants on the importation of their motor vehicles.
  - (ii) Removal of the requirements that the vehicle should be owned by the remigrant for six months before importation.
  - (iii) The credit is extended to cars purchased locally.
  - (iv) The credit will also be available to students who have studied for three continuous years abroad who will be classified as remigrants for purpose of credit.
- (F)
- (i) Exemption from excise duty and VAT for vehicles used by persons with disabilities or vehicles converted for their use. To qualify for benefit vehicles must be either driven by disabled or designed for such a person.
  - (ii) Government of Guyana to conduct feasibility study to grant tax rebate on handsets with accessibility features for persons living with disability. To allow Guyanese who are visually or hearing impaired to acquire cell phones. The benefits will be conferred after the commission representing persons with disabilities certified that the person, vehicle and the handset are eligible for concessions.
- (G) Final Tax Gold and Diamond Miners' Withholding Tax. The tax imposed will be the final tax and the tax will apply only to declarations made to the Guyana Gold Board. The application of the tax covers persons who are engaged in gold mining and not from the sale of gold or the rental of blocks. Income from other sources are excluded from this treatment.
- (H) Reduction of the rate of income and corporate tax to 25% for small businesses. The businesses who can benefit from this must be registered with the small business bureau and be involved in manufacturing or construction activities.
- (I) Reduction in the corporation tax rate for non-commercial companies or manufacturing companies to 25% from 27.5%. This will take effect from 1 January 2019.
- (J) Harmonisation of property tax and capital gains tax threshold and rates for individuals and companies:
- Property tax
- (i) An increase in threshold for filing a return for individuals from the current net property of GY\$1.5m (US\$0.01m) to GY\$40m (US\$0.19m) and for companies, from GY\$0.5m (US\$2,398.08) to GY\$40m (US\$0.19m).
  - (ii) Current rates for both individuals and companies are reduced from 0.75% to 0.5% for the first GY\$20m (US\$0.10m) in taxable net property and the remainder will be taxed at 0.75%.
- Capital Gains Tax
- (iii) No CGT to apply for persons who sell their home and reinvest in another home of equal or greater value.
  - (iv) The sale and new acquisition must take place within the assessment year or within 60 days after the end of the year in which the property is sold.
  - (v) CGT threshold to increase from GY\$0.5m to GY\$1m (US\$2,398 to US\$4,796).
  - (vi) CGT will now be applicable on the gains accrued from the 2011 valuation or the date of acquisition, if later, and the selling price of the property when assets are disposed of, regardless of date of acquisition.
- (K) Wear and Tear Allowance for service and warehouse buildings
- (i) Wear and Tear allowance of 2% of cost to be granted on any building used for service and warehousing purposes.
  - (ii) Initial allowance to also be given to service and warehousing buildings.

- (L) Export Allowance
- (i) Export allowance to be extended to exporters of non-traditional products who are paid in a recognisable trade currency. Previously benefits granted to exporters of products within CARICOM.
- (M) Exemption from Customs, Excise and VAT
- (i) Reduction of excise tax on:
    - (a) Shandy and other beverages containing less than 1% alcohol by volume, from GY\$126 per litre to GY\$65 per litre (US\$0.60 to US\$0.31).
    - (b) Indigenous wines and other fermented beverages that are manufactured using 100% local inputs, from GY\$150 per litre to GY\$65 per litre (US\$0.72 to US\$0.31).
  - (ii) New regime for taxing tobacco consisting of a combination of ad valorem and specific taxes as follows:
    - (a) the imposition of a specific Excise Tax of GY\$2,500 (US\$11.99) per 1,000 sticks,
    - (b) Customs Duty of 100% and
    - (c) VAT of 14%.
  - (iii) Exemption from Customs duty and VAT pesticides used in the agriculture sector.
  - (iv) Exemption from customs duty on limestone used in the agriculture sector.
  - (v) Exemption from VAT on the following:
    - (a) aircraft engines and main components/parts
    - (b) concrete blocks used for housing and construction
    - (c) equipment and chemicals for water treatment and production plants
    - (d) orthopaedic appliances and artificial parts of the body. (All items contained in the First Schedule to the Customs Act under Tariff Heading No. 90.21, being orthopaedic appliances, including crutches, surgical belts and trusses; splints and other fracture appliances, artificial parts of the body; hearing aids and other appliances which are worn or carried or implanted in the body, to compensate for a defect or disability), and artificial teeth and others
    - (e) educational robot kits
    - (f) boats used in rural and riverain areas designed for the transport of goods and persons not exceeding 7.08 cubic metres (250 cubic feet)
    - (g) waiver of 5% import duty on the boats used in rural and riverain areas designed for the transport of goods and persons not exceeding 7.08 cubic metres (250 cubic feet) and
  - (vi) VAT credits on electricity and water for exporters.
- (N) Tourism
- (i) Region 10 to be added to Regions 1,7,8,9 which currently enjoy reduced excise tax on transportation used for tourism purposes.
  - (ii) Exemption from import duties and excise taxes on 12 seater motor buses used exclusively for tourists anywhere in Guyana. The tourism operator should be registered and licensed with the Guyana Tourism Authority for five years before it can access the concession. Buses to be painted with stripes for zoning purposes similar to minibuses.
  - (iii) Wear and Tear allowances and Initial Allowance to be given to hotel buildings in certain named regions.
- (O) Refunds of revenue
- (i) Income Tax Act and Customs Act to be amended to allow for customs duty and income tax refunds to be done out of Customs duty revenue and income tax revenue respectively. This will harmonise the refund of the income and customs duty refund systems with that of VAT refund system.

- (P) Miscellaneous measures
- (i) All ten established towns will be included in sections 18,19,20,22,40,41,44,46,47,48,50 and 54 for licensing purposes.
  - (ii) The Motor Vehicle and Road Traffic Act to be amended to increase drivers' license duration from three to five years for an increased fee of GY\$5,000 from GY\$4,000 (US\$23.98 to US\$19.18).
  - (iii) Reduction of fee to reprint/replace TIN certificates from GY\$5,000 to GY\$2,000 (US\$23.98 to US\$9.59). No change for first time applicants who are still required to pay GY\$1,000 (US\$4.80).
  - (iv) Amendment of Income Tax Act to clarify definition of "contractor" for the application of the 2% withholding tax.
  - (v) Introduction of requirement for a Tax Practicing Certificate for Tax Preparers who, in the opinion of the Commissioner General are so qualified to offer accounting and tax services to taxpayers. A registered Tax Return Preparer who is not a member of a recognised accounting body will be required to pass a competency test covering such issues as taxation, preparation of individual tax returns and ethics.
  - (vi) Removal of requirement for Commissioner General to send notices of assessment for less than GY\$1,000 (US\$4.80).
- (Q) Tax free retroactive increase of salary for public servants and increase of public servant minimum salaries.

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PwC has prepared this budget memorandum based upon the 2019 Guyana National Budget.