1240/5(6163)

WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES BY DEPUTY G.P. SOUTHERN OF ST. HELIER ANSWER TO BE TABLED ON TUESDAY 29th MARCH 2011

Question

Further to his response to Question 6121 on 15th March 2011, will the Minister detail the differences between the "financial intermediation businesses" which give rise to the figure of £74m for tax assessed for the year 2009 in his answer, and the "Financial services sector" used by the Statistics Unit to produce the figure of £809m profit for 2009 given in the "Survey of Financial Institutions 2009" which render comparison of the two figures "meaningless"?

Can he explain, when my figures included insurance providers which are zero rated and the Statistics Unit's figures for profits do not, how much tax is produced by tax at 0% which might make a difference?

Does the same argument apply to "financial advisory services" which are not included in the Statistics Unit's profit figures?

Since the figures for profits and the tax assessed do not scale directly what income tax revenue was produced from the £809m profits from financial services by sub-sector as follows:

Banking	£518m
Trust & co admin	£144m
Fund management	£87m
Legal	£37m
Accountancy	£23m

Will the Minister explain how the figure of £54m income tax resulting from "all trades other than financial" (and therefore zero rated) is produced?

Answer

Responses have been provided in the order asked. The response is necessarily long since this is a multiple question.

1. The Deputy's previous question number 6121 attempted to extrapolate an effective rate of tax for financial services companies taxed at the rate of 10% in 2009, from various sources of data. It is important to understand the differences between those sources to understand why an extrapolation would be meaningless. This was attempted in the response to 6121.

   The £809m profits figure published by the Statistics Unit is based on a survey of financial institutions and shows the estimated profits for the 2009 calendar year. Although there is a very good response rate to the survey, there is necessarily an element of extrapolation in these figures. These are not therefore a 100% accurate record of the profits that are subject to tax, although they are a close estimate.

   Secondly, the tax figures are based on profits assessed in that year which is not always based on a calendar year as companies have different year ends. There will therefore be a time lag between some of the profits on which tax is assessed in 2009 and those included in the profits published by the Statistics Unit.

Thirdly, the Statistics Unit figures include the total profits for businesses in the sectors stated in the question. Not all of the profits of these businesses are subject to tax at 10% as not all will fall within the narrow definition of the 10% financial services companies for tax purposes. Some are also subject to IBC rates which can be lower than 10% as this regime does not end until 31 December 2011.

For these reasons, trying to compare the profits published by the Statistics Unit and the tax assessed in any particular year is effectively comparing "apples and pears" and so will give a misleading and meaningless result regarding the effective tax rate of financial services companies.

The Deputy's figures also included tax assessed on sole traders and partnerships, which are subject to tax at personal tax rates. This would also render a calculation of the true effective tax rate from the Deputy's figures impossible.

2. The Deputy is right to indicate that insurance providers are not included in the Statistic Units profits and effectively not in the tax figures due to them being taxed at 0%. However, the concept still applies. In order to calculate a meaningful effective tax rate for financial services companies taxed at 10%, the profits of sole traders, partnerships and all companies taxed at 0% should be excluded. Otherwise, comparing those entities' profits with tax levied at 0% or personal tax rates will give rise to a skewed result.

3. The Statistics Unit profit figures do not explicitly include "financial advisory services" although if this activity was carried on by, for example, a bank it would be included. Certain, but not all, companies classed as "financial advisory services" will be subject to tax at 10%. In order to calculate a meaningful effective tax rate for financial services companies taxed at 10%, the profits of all companies taxed at 10% should be included. This is a further indication that trying to extrapolate an effective tax rate from the Statistics Unit profits will not give the full picture.

4. The sector allocations used by the Statistic Unit are not used in the Taxes Office and so it would require a tax payer by tax payer analysis to undertake the analysis requested by the Deputy. I refer the Deputy to the response to question 6164 in which there is further comment on the tax revenues from those entities classified as financial services entities.

5. As clearly stated in the response to the Deputy's earlier question 6121, the figures quoted by him for 'company income tax' included the income tax assessed on all businesses carrying on a trade in Jersey – not just for companies. Businesses may carry on a trade through partnerships and as sole traders, the profits of which are taxed at personal tax rates.

The figures for profits published by the Statistics Unit represent the profits made by those businesses during the calendar year. However, the final tax assessment for any business in the year of assessment 2009 can be affected by a number of adjustments – for instance losses from another year.

As a result, it is not possible to match profits made in 2009 with the tax assessed for year of assessment 2009. There are too many other variables to be calculated before taxes are levied on profits in any given year.