



Economic Affairs Scrutiny Panel

Retail Policy Review

Witness: The Minister for Treasury and Resources

Wednesday, 7th November 2018

Panel:

Deputy K.F. Morel of St. Lawrence (Chairman)
Deputy D. Johnson of St. Mary (Vice-Chairman)
Deputy S.M. Wickenden of St. Helier:
Senator K.L. Moore

Witnesses:

The Minister for Treasury and Resources
Assistant Minister for Treasury and Resources
Treasurer of the States
Deputy Comptroller of Taxes

[11:01]

Deputy K.F. Morel of St. Lawrence (Chairman):

Thank you so much for coming in. Obviously, this is part of retail review because ordinarily as a panel we do not necessarily scrutinise work for the Minister for Treasury and Resources that is often Corporate Services, but in this case we are undertaking a retail review. Of course policies that cause taxation have particular bearing on that with regard to inflation, G.S.T. (goods and services tax), et cetera. So we are going to have a wide-ranging look at Treasury's interaction with the retail sector in Jersey. It is exploratory. It is just to find out what you are doing, how you are thinking, that sort of thing. Shall I start with introductions, I do apologise? Racing ahead. It is inexperience. If we can start.

Deputy S.M. Wickenden:

Deputy Scott Wickenden, I am a panel member for the Economic Affairs Scrutiny Panel.

Deputy K.F. Morel:

Deputy Kirsten Morel, chair of the Economic Affairs Scrutiny Panel.

Deputy D. Johnson of St. Mary (Vice-Chairman):

David Johnson, Deputy of St. Mary, vice-chairman.

Senator K.L. Moore:

I am Senator Kristina Moore, I am a member of the panel.

Treasurer of the States:

Richard Bell, Treasurer.

The Minister for Treasury and Resources:

Susie Pinel, Minister for Treasury and Resources.

Assistant Minister for Treasury and Resources:

Lindsay Ash, Assistant Minister for Treasury and Resources.

Deputy Comptroller of Taxes:

Paul Eastwood, Deputy Comptroller of Taxes.

Deputy K.F. Morel:

Thank you. Yes, it is very much focused on the retail sector, so we are not going to go wandering off into other areas. First, Minister, I just wanted to get a kind of overarching view of how you describe the benefits that the retail sector brings to the Island and what you think the retail sector does and how it helps Treasury, et cetera, and the benefits it brings.

The Minister for Treasury and Resources:

The retail sector employs about 8,000 people, which is a starter for 10, because obviously the more people employed the less demand there is on the social security system but also the better employment there is, the better the health of the people, which has always been a proven fact. They earn collectively salaries of about £187 million, with an average of just over £23,000 per person. There are a lot of small businesses, and I know you will probably want to come on to the retail tax, which are locally owned, which do not come into the retail tax equation. Of course they are paying into the system as well. The threat of course, and is well acknowledged, is the internet purchasing, which is going to grow and so we have to address that. I know you will probably come on to the

G.S.T. *de minimis* as well. It all overlaps. That is a threat to the retail sector. I still think the majority of people like to see or try what they are buying; be it food, clothing, whatever. The well-rehearsed drop in the High Street of retail activity is a global situation. It is not just Jersey. It tends to be the big chains rather than the local businesses.

Deputy K.F. Morel:

It is interesting. Before we come on to *de minimis*, which I was going to, you mention the small retailers. How do you see it as a platform for entrepreneurship in Jersey? The retail sector is a place that people can start businesses and that sort of thing, do you see it playing a role in that theory?

The Minister for Treasury and Resources:

Again, that is an overlap with helping start-up businesses, which again, with my ex-Social Security hat on, we have looked at very carefully with supporting people who become entrepreneurs, if you want to put it that way, or self-employed. Because there is quite a hefty social security to pay, bearing in mind it is half what the U.K. (United Kingdom) pay, but even so it is quite difficult for a start-up business to find that sort of money. Therefore there is a deferred rate. We do encourage it. The rates in the High Street, whatever the High Street is, King Street, Queen Street, are said to be high. Again, compare that to the U.K. and they are not. But from an entrepreneurial start-up business point of view, they can be quite daunting.

Deputy K.F. Morel:

Yes, when you are starting from scratch. You mentioned *de minimis* levels and these are often in the media and they have been over the years, to be honest, and they came up again before the Budget that you have proposed. In the Assembly, you mentioned a view to reduce the *de minimis* level. In the Budget you have chosen not to do that. I was just wondering if you could explain why you have chosen not to reduce the *de minimis* level from £240.

The Minister for Treasury and Resources:

We only said that we were looking at reducing it, not that we were going to, because it was never a fixed point of view. So we did look at it and the costing and we visited Jersey Post and asked them what the impact on them would be were we to reduce it, for instance, by half because that is what people sort of understood. They said it would not affect them hugely. We took it to the Council of Ministers as a suggestion, not a done deal, on the basis that in about 3 years' time throughout certainly Europe, there will not be a *de minimis*, so we felt it was probably preferable to reduce it and then stop it rather than just stop it completely. As a gesture to retail, and I do not mean that to sound condescending, but retail have strongly said that they find it very difficult to compete on a G.S.T. level with the likes of Amazon, for instance. There are plenty of others, not just Amazon, but

that is the best known one. It was understanding what retail had put to us as well. So it was that whole package that we took to the Council of Ministers. The Council of Ministers said they did not want a reduction.

Deputy K.F. Morel:

Did they explain why they did not want a reduction? What was the prevailing thinking in the Council of Ministers?

The Minister for Treasury and Resources:

It was not necessarily the financial side of it. I think if we had reduced it by half Treasury would have acquired about £900,000, which in today's financial situation would have been gratefully received but they felt that publicly that it would have been quite difficult to implement.

Deputy K.F. Morel:

Is that, do you think, a matter of affordability to the public, seeing the *de minimis* level is allowing them an opportunity to buy more cheaply elsewhere?

The Minister for Treasury and Resources:

Yes. Also £240 when it was introduced, is £12 worth - I think it is how it breaks down - of tax that we do not receive. If we halved it then obviously that tax take would increase. I think that is right, is it not, Treasurer?

Treasurer of the States:

Yes.

The Minister for Treasury and Resources:

But publicly, of course, £240 on people's purchases and the convenience it allows and the doorstep delivery is what the public like. We have a very high rate of working population, so people find that convenience an automatic right, I think, nowadays. So from a public point of view it would have been difficult to do. From a retailer's point of view I still see it as an unfair playing field.

Deputy K.F. Morel:

Which brings me to my next point. Tax policy, you said that tax should be low, broad, simple and fair. G.S.T. is low, it is broad, it is simple but with the *de minimis* level, as you have just said, it is not fair. How do you marry up that view with the actual safety policy of locals and compare?

The Minister for Treasury and Resources:

As I said, we have inherited this and in 3 years' time it will probably go, along with the other jurisdictions. So *de minimis* will not exist. So it will be back to it being low, broad, simple and fair. Our idea was just to reduce it in stages but that was not the view of the Council of Ministers.

The Deputy of St. Mary:

I remember the arguments in the U.K. when they were contesting the *de minimis* rule and the fact that imports were coming from Jersey. On our side, have you quantified the effects on retailers of maintaining the current *de minimis*? Surely, are not retailers here at a disadvantage?

Assistant Minister for Treasury and Resources:

I personally do not think, and talking to some of the retailers, they do not think it would have made any difference to them as such. My point is that the playing field should be level. It is not a case of whether it is going to make a difference but at the moment it is an unfair ... you are asking the chap who runs the corner shop at Havre des Pas that he has to levy 5 per cent, but we have the goods coming in from a massive American corporation where there is no levy of any tax whatsoever. Plus of course they are bringing in a tremendous amount of cardboard waste. So you put the 2 together and I felt that we should have lowered the *de minimis*.

The Deputy of St. Mary:

Yes, in the interest of fairness.

Assistant Minister for Treasury and Resources:

Yes.

The Deputy of St. Mary:

It would have put a level playing field. That was the reason for my question. If there was a reduction who would do the collecting, the postal service or could it be organised that the retailer responsible for collecting that tax or accounting for it?

Assistant Minister for Treasury and Resources:

The retailer would have been ... let us take Amazon, for instance, they would not do that. It was tried in Australia, who are a sort of island but considerably bigger than ourselves. Amazon just turned round and said: "Okay, we will introduce Amazon Australia" and has way, way less offering. It did hit that particular market. So we would have had to collect the tax ourselves. It would have had to have been collected by the customs.

The Deputy of St. Mary:

The administrative burden ...

Assistant Minister for Treasury and Resources:

Would have fallen on customs. I think when we were looking, they would have had to employ 2 more people to do that.

The Minister for Treasury and Resources:

Because of the increase in money that we would take from it would be reduced basically. But you would still have to employ more people to do it.

The Deputy of St. Mary:

I take the Assistant Minister's point that the level playing field side of things, it will be appropriate to reduce it, but I take it that the decision now taken, you see that being there until it is phased out completely, do you?

The Minister for Treasury and Resources:

Not necessarily at all. I mean we will carry on looking at it. It is just not in this year's Budget. Perhaps next year.

The Deputy of St. Mary:

That is useful to know. Moving on, another matter related to G.S.T., the refund mechanism. Now I do not know why it is used but how easy is it for someone acquiring goods on holiday in the Island, paying G.S.T. to reclaim that? How frequently is it used?

Deputy Comptroller of Taxes:

The question is around retail export schemes?

The Deputy of St. Mary:

Sorry, yes, I should have been clear.

Deputy Comptroller of Taxes:

Where people who live outside of the Island when they are on holiday primarily can come here and they can purchase larger value goods. The threshold I think is £300 is the transaction value. Then working with the retailers, when they exit the Island, they can enter into a refund scheme and end up with the G.S.T. being refunded. I think that has been in place now for a number of years. It is fair to say that to date the uptake among retailers has been very limited but it is there, it is available to retailers if they want to operate.

[11:15]

I think that the burden on Government is relatively low because the retailers are running it and also that ... I think it is quite straightforward I believe for customers to do because literally, as they leave the airport, as they go through the scanning area, there is a small room on the side where you can go across and get the forms stamped as appropriate.

The Deputy of St. Mary:

Is it sufficiently well-known to be taken advantage of? Do the public know, but you say that is the retailer's fault if they are not, I suppose?

Deputy Comptroller of Taxes:

It is a scheme that the retailers have to enter into. It is for the retailers to come forward. It is on the website. It is there. But I take your point, I do not think it is as well-known as it should be.

Deputy K.F. Morel:

Do you know how much is refunded?

Deputy Comptroller of Taxes:

I do not have that in front of me but we can find out for you, yes.

The Minister for Treasury and Resources:

It is also a different driver because if you are doing the same thing in the U.K., exactly the same operation, you would have to declare what you have got and receipt from the retailer, and then go to a place at the airport. But you are retrieving 20 per cent tax as opposed to 5 per cent, less the administration charge. So it is a bit more of a driver to do it the other way round than it is here.

Deputy K.F. Morel:

It is. You mentioned they come with the high-value goods and so 5 per cent on high-value goods and there have been suggestions that there is a potential market. Before we head off from G.S.T., or before I sign off from G.S.T., so to speak, I was just wondering about the link between G.S.T. and affordability. I want to say "inflation" but I know G.S.T. is a constant so it falls out of inflation on an annual monitored basis. But it is an input cost and as far as the person in the street is concerned it raises the cost of living for them. At the moment, Brexit is causing an increase in input costs. The increasing population is basically increasing demand and therefore potentially shortening supply. So we have kind of got a perfect storm for inflation purposes at the moment, and we see inflation at 4.5 per cent. G.S.T. is obviously one tax but what kind of levers or measures do you think you have to deal with affordability and inflation?

The Minister for Treasury and Resources:

In tax generally?

Deputy K.F. Morel:

Yes. Or Treasury generally, not just tax.

The Minister for Treasury and Resources:

There are all sorts of levers. There has been a constant question of: do you increase G.S.T., do you remove it from certain areas such as food? Do you increase tax as a 20 per cent basis? The long-term care charge has already been forewarned that that will have to go up next year. So there are all sorts of levers one can use but then you have to bear in mind that we, as a 20 per cent tax regime, are competitive, which is why we have it. With G.S.T., which is really the sort of low, broad, simple and fair one because it affects absolutely everybody, even those who do not pay tax still pay G.S.T. I am not in favour of ... obviously because it is not in the Budget, of that increasing any time soon. Also how you break off parts of G.S.T., the administrative side of that would indicate any income from it because what is food, for instance? It is a very debateable subject.

Deputy K.F. Morel:

You do not see G.S.T. playing a role in the affordability side? I am thinking from a retailer's perspective as well. As prices go up people are less likely to buy goods, so G.S.T. does play a role.

The Minister for Treasury and Resources:

There is no evidence of that at all.

Deputy K.F. Morel:

Interesting.

The Minister for Treasury and Resources:

Not that we have seen.

Deputy K.F. Morel:

As prices rise people do not buy fewer goods?

Treasurer of the States:

I think we are wandering maybe at this point into corporate retail tax and the alleged effect on inflation there. Obviously, when G.S.T. was brought in there would have been that jump up and from thereon ...

Deputy K.F. Morel:

And that is why I say it does not affect inflation on an annual basis. But it affects the money in my pocket and every Islander's pocket at the end of the day. So they do not mind too much whether it is caught in the inflation figures or not, it raises the cost of living.

Treasurer of the States:

At a very simplistic level, you come back to therefore if you want to retain a yield of total taxation, the question then becomes where does that taxation come from if it is not going to come from G.S.T.? As the Minister said, and has been rehearsed previously, low, broad, simple and fair is particularly applied to G.S.T., notwithstanding the *de minimis* issue, and the choice that was made at the time was to low and broad, rather than higher rates on some goods and zero rates under those goods because of the scale of complexity of the administration. Not just for tax authorities but for retailers and other companies alike. That was the choice that was made at the time. So if we were to now choose to go to a different system obviously those same decisions would have to be discussed again as to how much would administration cost, it keeps quite a lot of court time going in the U.K. in terms of ... we have had a conversation.

Deputy K.F. Morel:

Yes.

Treasurer of the States:

I think we came to a decision as to what a Jersey Wonder was. But the Jaffa Cake question in the U.K. is just an example that is trotted out quite a lot by the more expert individual down the end of the table. So then you get into a whole host of checking through whether something is zero rated or rated at a higher level.

Deputy S.M. Wickenden:

It was not somewhere I was going to go but just on the words we say that by prices going up it does not affect people's buying. That goes completely opposite to the argument when putting impôts up on fuel, cigarettes and alcohol, where you are saying you put the price up to affect consumption, to encourage people not to use these things. That is a completely opposite argument when you are saying there is no evidence of price going up here affects buying, but here you are saying by putting the price up we will affect the consumption.

The Minister for Treasury and Resources:

No, we did not say we would affect it, and you used the word saying we encouraged people not to smoke or drink to excess. It is just an encouragement. It is not necessarily an effect; if people want to do it, they will do it. Also, chairman, you mentioned the cost of living and affecting possibly the

less well-off in our Island. When G.S.T. was introduced then there were 2 facilities put in - the food costs bonus and the cold weather bonus - for people who do not pay tax but who are not on income support, which gives them, in effect, the difference between G.S.T. and not G.S.T. That is from that point of view cost of living was taken care of. Saying there is not really much evidence, it is very difficult to tell, with internet shopping, what the difference is on G.S.T.

Deputy S.M. Wickenden:

There are 2 ways of looking at the idea of *de minimis* the way I see it, and the public will say that if we remove *de minimis* we are making things more expensive to buy, therefore they will probably not be in favour of it. But at the same time, the retailer is under an unfair competition in some ways. It is the understanding that if the retailer goes locally that will affect people as well. It is probably a very difficult way to balance which way we are going to go in some ways because we want to have a healthy retail sector. But we are also here to do what the people of Jersey want to make their lives as easy as possible. How do you kind of divvy up between the 2 different options of what people want?

The Minister for Treasury and Resources:

That is absolutely the problem. You have hit the nail on the head. It is trying to find that balance that is the difficulty. But internet shopping is not going to go away.

Assistant Minister for Treasury and Resources:

I do not know if you saw today's Marks and Spencer's figures that came out. It was interesting because the figures are up 7 per cent so headline it looks good. But one of the reasons it does not look so good, when you are digging underneath it, is they closed 100 stores to do that. One of their big things that they have written in their report this year is their big focus next year will be to get their online offering considerably better. It is not just us that suffer on that, it is a U.K.-wide, probably a worldwide problem.

Senator K.L. Moore:

In your considerations, and obviously following the Council of Ministers' decision not to back your idea to reduce the *de minimis* level, what other levers have you considered to assist the retailers who you identify as being in this position of not being on a level playing field? For example, has there been any consideration of them introducing an empty property tax that particularly might encourage landlords to lower their rents to encourage retailers to open up new shops?

The Minister for Treasury and Resources:

Yes, that has been looked at.

Deputy Comptroller of Taxes:

We have not specifically looked at empty property taxes in the recent past. I think it is worth saying the taxation of property at the moment is through the rates system. In the past we have done some analysis. I think a lot of the pain that you are seeing on the U.K. High Street, if you followed ... the U.K. Budget recently was around high levels of business rates in the U.K., and the Chancellor in the U.K. has announced obviously some help to smaller retail businesses in the U.K. on that front. We did some comparison work in the past between our business rates, which are a combination of Parish rates and Island-wide rates. At least the positive news on that front is the comparison is very favourable towards Jersey, in a sense of our business rates are very low compared to the U.K. So some of the pain that you are seeing in the U.K. from property taxes is not being experienced here, or at least it is on a very different scale. But we have not specifically looked at empty properties. As I say, at the moment the taxation of property ownership sits within the Parish and the Island-wide rates system.

The Deputy of St. Mary:

Can I follow up on that? I mean this is a sacred cow almost, is it not, do the Parishes hold on to this idea of property tax being their area when in fact, if there is ... I would argue that the Island, as a whole, loses out because landlords are not receiving rent on which they will pay tax. There are a number of other areas. Is there an appetite to revisit the whole question of property tax, especially in regards to empty property tax?

Deputy Comptroller of Taxes:

There is work still going on between Treasury and the Comité and other interested parties looking at the rates system. One of the issues in particular that is being explored - I should put it that way - is the issue of the fact at the moment there is no way of revaluing property within the rates system. So what does that mean? That means effectively that where the burden of the rates falls across - I will start with businesses - has effectively been locked in place since 2003, 2004. If you go back through all the changes, it is effectively based on the rental values of the properties at that time. If we went back to 2003/2004, I think what we would all find is that the High Street retail sector was doing much better than it is now, so the relative rent versus other sectors of the economy, let us pick on offices, just for a second, was much higher. In effect, the retail sector is probably paying, if I can put it this way, a higher proportion of the rates burden now than they would do if we went through some form of rebalancing, some sort of revaluation process. There are discussions carrying on, taking place in the background, about can we find a way ... can you do some sort of revaluation to look at that? To be fair to the Constables, there are concerns about the administration cost of doing some sort of rebalancing exercise, et cetera. Those discussions are continuing in the background and hopefully ... there is a group called the Rates Working Group, which is looking at this, which will

hopefully bring forward recommendations both to the Minister for Treasury and Resources and to the Comité in due course.

The Deputy of St. Mary:

I am pleased to hear that you are looking at the balance between rates on office premises and retail, that will obviously help the retail sector from what you say. How near are we to having some form of report on that?

Deputy Comptroller of Taxes:

It is a steady process. As I said, there are rightly concerns to be thought about here. There is an administration cost that falls on that. If we were to go through a full revaluation process that would be an administration cost, both on Government but also on businesses in terms of how ... they would have to complete some sort of assessment process. So we should not deny that. There would then be appeals against those values, et cetera, so there are factors on the other side. The Rates Working Group is considering all of these issues and will bring forward recommendations in due course.

The Deputy of St. Mary:

Back to my question about dates.

Deputy Comptroller of Taxes:

I do not think we have a firm date yet to respond. The Rates Working Group has met a number of times and I think is due to meet again before the end of the year. Perhaps when we have had that next meeting it might be easier to give an indication of when something might come forward.

Deputy K.F. Morel:

Just before we move off rates. I was just wondering, it seems odd that it has been 14 years or so since, or 15 years, we did our revaluations. If this was not a Parish-based matter do you think it would be easier to do revaluations more often?

[11:30]

Because my concern is that basically, as you stated, is that this creates extra costs for retailers essentially and in a difficult sector, for the sake of the way we administer something, people are losing out and for 15 years that is quite a long time to be ... well, they have not lost out for all of those 15 years. So the bureaucracy is very much slowing down a fairness issue, a competitiveness issue as well.

Deputy Comptroller of Taxes:

Based on looking at other rates systems across the world, to have a system which sort of does not allow revaluations at all is somewhat out of kilter with other jurisdictions. Clearly there is an argument you do not want to have them too regularly or else it becomes a constant cycle of doing this.

Deputy K.F. Morel:

But 5 years, that sort of thing.

Deputy Comptroller of Taxes:

Exactly. I think some sort of periodic revaluation is what we see in other jurisdictions and will be seen as a norm.

Deputy K.F. Morel:

But if it was not a Parish-based basis do you think it would be easier to move to that sort of situation? Maybe an overly political question. I will focus that towards the Minister. If it was not a Parish-based system do you think it might be easier to have more frequent revaluations?

The Minister for Treasury and Resources:

You are right, it is very political. In answer to Deputy Johnson's question, the Connétables are very possessive about their properties. I am sure overall but, as Paul said, it is an administrative problem essentially but it would probably be easier to administer if it was Island-wide.

Senator K.L. Moore:

Have you met with the current Comité, Minister?

The Minister for Treasury and Resources:

No. I have not had that meeting yet, but it is in the book to do so.

The Deputy of St. Mary:

Before we close that, can I ask one further question? In the dialogue which is going on, is it within your ambit to look at the idea of - no other way of putting it - outlawing review clauses which are one way only? Most review clauses say we will conduct a rent review provided it goes up. It is frequently the case that there is no provision for rents being reduced if the market so determines. Is that within your ambit to pay attention to that?

Deputy Comptroller of Taxes:

The discussions of the Rates Working Group are very much focused on the rates system and how that works. That particular group is not looking at that issue whatsoever.

The Deputy of St. Mary:

That again will be a political question.

Deputy S.M. Wickenden:

We are going to get on to the fun one on the retail tax. What level of consultation with retailers was carried out by Treasury with regards to the retail tax before the proposed Budget was lodged?

The Minister for Treasury and Resources:

This Budget you are talking about because obviously the retail tax was prior to ...

Deputy K.F. Morel:

I think we are talking about whether it could have been reduced in this Budget.

The Minister for Treasury and Resources:

Thank you. Yes, inasmuch as I had meetings with - I would not say several but some of them - who voiced concern, mainly the locally-owned businesses because there are, I think, off the top of my head, 5 which are locally owned to whom this has an effect and 20 who are not. The concern was not dire by any stretch of the imagination. It was just a concern as to the 20 per cent but of course we have not seen the effect of it because we will not see the effect until the end of this year of the first year of the retail tax. It must be remembered, only on profits of over £500,000, so that does not incorporate, as I said before, a lot of the small locally-owned businesses. It is just on the profits over £500,000 and then it is tapered up to £750,000. But there has not been outcry over it.

Senator K.L. Moore:

It could be said that there would not be an outcry from that particular group. I think after one of the debates in the last Assembly one large retailer congratulated me and thanked me for preventing the competition from entering the Island by not rescinding that retail tax. It is a measure that could be seen to be anti-competitive. Would you agree?

The Minister for Treasury and Resources:

There is no evidence as such to say that at the moment. I would have thought there would have been much more of a vociferous throwback from the people it has affected but there has not been.

Deputy S.M. Wickenden:

There are different ways of working out the effect. You are saying by the end of the year we will know. What we will know by the end of the year is probably what income has been derived through this, but there are larger effects where it could be said to stop inward investment in the Island, and some large retailers would have made our positions or brought in business that would have given jobs, but they have decided not to because of the tax and the way that it was done.

The Minister for Treasury and Resources:

Yes, and I have heard all of those comments but then on the other hand you look at the Sports Direct people who have taken over what was the BHS building who are just investing £4.1 million, I think, in it. There are arguments on both sides, as there is with everything. Yes, I have certainly heard the comments that you allude to. But then you can never necessarily prove that chains are not investing here because of a retail tax.

Deputy K.F. Morel:

I was going to ask as well, talk about retail tax is that some submissions we have had from other retailers is there is this distinction between kind of retailers and the tax and wholesalers. As so often with taxation, and I am sure the officers would understand, these are fairly artificial distinctions. Wholesalers are often retailers and vice versa. As I understand it, the wholesalers, basically the level is 60 per cent. If you have 60 per cent of your turnover delivered through retail then you do pay retail tax and if you do not reach that level then you are a wholesaler and you do not pay it. Do you think this distinction is harming businesses which could be in the same sector, sets up companies who are tracking very, very similar but one is paying a tax and the other is not paying a tax just because of this distinction? Do you think that is causing harm to the sector?

The Minister for Treasury and Resources:

The Treasurer will have something to say, but when you bring in a tax or a new law, whatever you do, you have got to give it some time to bed down, or whatever the phrase is, before you can ascertain what is fair, what is balanced, what is bringing money, what is not.

Treasurer of the States:

I think Paul would have something to add there. We were looking at trying to create a fairly straightforward mechanism that is not inconsistent with the way that we work within our tax system for financial services companies, for example. Therefore we have gone down this path. Any particular path in the ... Guernsey and I think Isle of Man have gone down a slightly different route, but there are flaws ... sorry, not necessarily flaws but advantages and disadvantages to either of the approaches. We think this is the better of them. As the Minister suggested, as and when we can start to see what is happening, we could review the situation as we move forward.

Deputy K.F. Morel:

Have you had any feedback from retailers ... I am thinking the basic ... I think construction is quite a good area for this. If I go to one shop to buy a pot of paint it is classed as a retailer, go to another shop to buy a pot of paint, in a retail manner, and it is classed as a wholesaler just because it has slightly less retail trade done, and so they are not paying the tax. Have you had feedback at all from the sector about it?

Deputy Comptroller of Taxes:

I think it is right to reflect on, so in bringing this forward we did sort of reflect on the experience in both the Isle of Man and Guernsey. Although it is a different problem, what they said to us was that ... our system, what the retail tax seeks to do, is to identify and define what a retail company is. Once you are a retail company you then pay tax on all of the profits arising in that company. That is different to the approach taken in the Isle of Man and Guernsey, which say what we will try and do is we want to identify the profits arising from retail activity within the company, and we will tax those. Their challenge, on the other side, then there is a ... in that company they still have to work out what is wholesale and what is retail. But then you have got the overheads of the business, which are then having to be split between the 2 types of activity, and there are lots of discussions happening in the other 2 islands on the compliance side about: is it right to allocate that overhead to the taxable activity, as the business wants it to be, or should it be somewhere else? So as the Treasurer said, I think whichever approach you go for has challenges. The approach that we went for has those challenges in it but it at least also fits with our system of once you meet the definition of that company you then pay tax on all of your profits, so you do not have this issue around allocation of overheads, et cetera.

Deputy S.M. Wickenden:

I did ask whether you had had any feedback as to the way this operates from retailers.

Deputy Comptroller of Taxes:

I think it is fair to say there have been a number of low-level questions, just making sure that people understand. In some ways, because this only impacts on the largest 20 businesses, I would expect it is the accountants in the Island who are probably getting more of the questions at this stage, who are working their way through it, rather than directly with us.

The Minister for Treasury and Resources:

But also the Taxes Office cannot divulge private correspondence with businesses.

Deputy K.F. Morel:

No, it is a general question whether there had been feedback or not.

Deputy S.M. Wickenden:

The tax was put in at the 20 per cent top tier, through a tiered system. I know we were on different sides of the argument on P.62, which was the rescindment. Do you not think by putting it up to 20 per cent and then finding out what the impact was possibly a bit harsh, and we should have done it in a tiered? What is the mechanism to say this has been harmful because it was 20 per cent? Do you have a measurement that says we are going to look at this and say maybe we went too far and we will bring it back a level? Do you know what that would look like?

The Minister for Treasury and Resources:

I said in an answer earlier that we will not know until the end of this year, we will not have the information until then.

Treasurer of the States:

I think, and Paul will correct me if I get the classifications wrong, there is a lot of discussion about it should be 10 per cent because it is Zero/Ten. 10 per cent is related to financial services companies and there is a rate of 20 per cent for other companies that are not taxed at zero. 10 per cent is the exception to that. Retail is not financial services and that is why the decision was made at the time that it was a 20 per cent rate because that is ...

Deputy S.M. Wickenden:

That is our tax rate.

Treasurer of the States:

... more in the ballpark of ... it is not zero, it is not 10 because it is not financial services, therefore the default position comes back to 20 per cent.

Deputy S.M. Wickenden:

Minister, you mentioned in your proposed Budget that the Treasury is lobbying U.K. retailers who charge V.A.T. (value added tax) on supply of goods into Jersey. What work is being carried out and how successful has Treasury been so far at addressing this issue?

The Minister for Treasury and Resources:

It is a very good question. Paul?

Deputy Comptroller of Taxes:

I think as the panel is aware, in the Budget last year we were asked to undertake what was described as a programme of engagement and awareness raising with U.K. businesses, which are charging

V.A.T. on the sale of goods into the Island in an online environment. It is proper to start from the off and say that that is all we have. We have no stick here. The Tax Office in Jersey cannot make these businesses ... cannot impact on what they are doing from a U.K. tax point of view. Our approach has to be one of engagement and awareness raising. Over the period since then, I think the first thing to stress is we obviously sort of made contact with H.M.R.C. (Her Majesty Revenue and Customs) in the U.K. just to make sure we were not stepping on anyone's toes and anyone felt anything improper was taking place. Then we have written to and spoken to a number of retailers. I will not mention any by name. I think the results so far are a mixed bag. We have had some positive responses from a number of retailers who are properly looking at changing their systems in order to do something different. Hopefully that will come to pass and that will be positive. I think thought it is fair to say that we have had a number of other responses from retailers. Some have said that the system changes involved in changing it so that they no longer charge V.A.T. on sales to Jersey are just not worthwhile. They will not make those system changes. It is almost better for them to stop selling to Jersey than to do that, because the size of the market just is not there for them. It is fair to say that other retailers we have had no response from whatsoever, and I think that is to be expected. Then I think we also have received a number of responses from retailers where they talk about the fact that they charge a global price for goods. So what I mean by that, is they look at a good and they determine how much the market will bear for that good. For example, this laptop is £100, and we will sell it for £100 in all the markets that we operate within. Effectively, the indirect tax, either the G.S.T. or the V.A.T., just falls out from that, if I can put it that way. They do not really care what the tax is, they just care about the end price that they are selling that good for.

[11:45]

We have had a number of retailers have said to us: "Look, we are not charging V.A.T. We are not charging people in Jersey V.A.T. What we are doing is we sell that good for £100. We sell it for £100 in Jersey, we sell it for £100 in the U.K., we sell it for £100, et cetera. We have had a number of retailers who have said that. In that context people are not being charged V.A.T. The retailer is just saying to us they are making a decision around a global price. So it has been a mixed bag. I think it is important to say that I do not think this is a ... this process is not really one with a deliverable as such. I think we are seeing it as a continuing process. We have had a number of conversations over the last 2 to 3 weeks with retailers. So this is something that is carrying on. Hopefully there will be some positive news. As I say, there have been a couple of retailers who have indicated some positive noises and hopefully that will come to pass.

Deputy K.F. Morel:

If I could ask as well, there is obviously a link to this V.A.T. issue and the "charging" of U.K. V.A.T. is the idea that by keeping it in the price, essentially retailers are profiteering, for want of a better

word; they are making larger profits than they would in other markets. As far as profiteering is concerned, do you work with the Competition Regulator, do you work in that way to try to make sure that profits are at acceptable levels in that respect, or does that not fall within your remit at all?

Deputy Comptroller of Taxes:

To the extent if that was anything, that would be Competition Authority. As I say, from our point of view, we have really just been looking at, as you say, encouraging these businesses to apply the correct V.A.T. through them in the U.K. So they should zero rate that supply. People in Jersey receiving those goods in Jersey should not be paying V.A.T. on them. That is clear, but it is a case of just encouraging them to apply the right treatment. To be fair, what a number of these businesses have said to us is that their systems work off of the postcode. So they see the Jersey postcode as a U.K. postcode, because it is in some ways a U.K. postcode, if I could put it that way. They are saying that their system looks at that sale and is effectively saying the system thinks it is a sale in the U.K., even though it is not. That is why we are talking about the system changes that they are having to look at.

Deputy K.F. Morel:

Maybe we should just change our postcodes. Any more questions on the V.A.T. area? I was interested in Brexit as well. Obviously, I talked earlier about input cost rising for the pound, et cetera. Do you see Brexit having an impact on the retail industry in the Island? Is that something that the Treasury Department has looked at?

The Minister for Treasury and Resources:

External Relations have been working extraordinarily hard on behalf of Jersey in negotiating, not only with the U.K., but globally with different countries. The Minister for External Affairs is in New York as we speak. This is so we are not going to get caught out, whichever way this goes with international trade deals, and that we may become, not totally reliant on, but certainly have to expand our thinking, because 80 per cent of our trade is done with the U.K. Whichever way it goes, the impetus is to maintain the free trade of goods with the U.K., as far as possible. Obviously, it is just an unknown quantity at that moment. However, we have covered every single option of a hard or soft Brexit or no Brexit at all, no deal at all. One of the main issues is going to be Fisheries here with how that works with landing Fish in France for continental delivery. That is also being worked on. There is certainly no lack of determination to cover every single scenario that we can.

Deputy K.F. Morel:

As the Treasury Department, do you have a view on the exchange rate? Effectively if there was a hard Brexit, which is likely to affect the pound quite considerably, do you have a view on how that

would play for the economy if the pound were to weaken even further and how that would affect the retail sector as well? Is that something that you have looked at?

The Minister for Treasury and Resources:

That, again, is External Relations. They have gone through everything with a fine-toothcomb with that.

Deputy K.F. Morel:

Surely the Treasury Department would want to have a view on how the pound might play out?

Treasurer of the States:

Some of it would depend on where those goods come from. Obviously if the underlying input is coming from the U.K., rather than elsewhere, then we are pegged on to a better raise with the U.K. If, on the other hand, of course, those goods are coming in from the U.K., but inputs to those are coming in from elsewhere, then there could be an impact.

Deputy K.F. Morel:

Almost all the inputs for those will come from elsewhere. That is the point. It is regardless of what happens the U.K. price will rise, therefore the price here is likely to rise. Have you modelled that? Have you looked at it?

Treasurer of the States:

There is speculation that it will. If I knew exactly what would happen to exchange rates ...

Deputy K.F. Morel:

You would be a wealthy man.

Treasurer of the States:

I would be. The position has been confounded several times since the actual vote was taken. Most speculation is on a hard Brexit and in particular that there would be an impact. That is not from our perspective; that is from a U.K. perspective.

Deputy K.F. Morel:

Yes. As a Treasury Department, you do not have a sense of the scale that that could be modelled differently?

Treasurer of the States:

We have no independent model.

The Minister for Treasury and Resources:

A passable proposition in the Budget is the £50 million that was taken from the Strategic Reserve Fund, which was to be repaid. We have asked in the Budget if that could be put into the Stabilisation Fund, which is there in case of a severe economic downturn. It was used in 2008, for instance. The general speculation is that these recessions happen roughly every 10 years. That is the reason that the money accrues in there, to do exactly what you say might be a very doomsday scenario. That sounds alarmist, but we are prepared for it in that way.

Assistant Minister for Treasury and Resources:

It is difficult to second guess where things will go when there is a soft or hard Brexit. Partly because it is pretty much going to be down to the U.K. and how they defend the pound. You probably likely would see interest rates rise quite sharply to defend the pound. However, you are second guessing and it is not really our second guess.

The Deputy of St. Mary:

Can I move to the subject of parking? I appreciate at first sight it might not be within your ambit, but where I am coming from is the incorporation of Jersey Ports result in a large tract of St. Helier being passed to them. That is leased out for parking, given the problems of parking in St. Helier and the fact that it does impact on the retail trade. Do you consider that within the terms of the M.O.U. (Memorandum of Understanding) that should be looked at as a separate item? For example, should Ports of Jersey be, I will not say ring-fencing that aspect, they are counting separately for that and identifying how much revenue comes from that source and possibly reflected in a dividend back to the States?

The Minister for Treasury and Resources:

The revenue from car parking goes into the Car Park Trading Fund.

The Deputy of St. Mary:

It does when it is owned by the States.

The Minister for Treasury and Resources:

It does, yes.

The Deputy of St. Mary:

What I am saying is: Ports of Jersey derive income from this activity, which it impacts on their whole situation.

The Minister for Treasury and Resources:

As the Assistant Minister said yesterday, we are reviewing all of the Memorandum of Understanding with each ...

The Deputy of St. Mary:

Well, I am pleased about that. Thank you. That will come in shortly?

The Minister for Treasury and Resources:

They are ... is it 10 years old, these M.O.U.s? They certainly need reviewing and, in some cases, tightening up.

The Deputy of St. Mary:

Yes. When the previous committee here looked at Ports of Jersey, we found the M.O.U.s on which that one was based were not particularly satisfactory.

Treasurer of the States:

Your panel made a number of recommendations. As far as I recall, most of those were then placed into the M.O.U. So we had a more distant M.O.U. initially, but there was a lot of work done on the M.O.U. thanks to the comments of the panel, in terms of wanting to see further strengthening there.

The Deputy of St. Mary:

Yes, we are happy with the M.O.U. for Ports of Jersey. When I say the predecessor of that, on which it was based, will not perhaps fit ...

Treasurer of the States:

Yes, the newer ones, I certainly envisage closer control of those companies, in particular Andium and Ports and some of the ones that we are predating now, we are seeing more at an arm's length situation.

The Deputy of St. Mary:

Yes, I do not mean to go beyond our brief on this. But, anyway, you have answered the point, you will look at car parking in the context of that.

Assistant Minister

We will look at car parking, absolutely.

Treasurer of the States:

It is worthwhile recalling that when we look up the rationale for Ports incorporation, as well as apparently freeing the debt hand of Government was around giving them greater commercial freedoms, given that they have a considerable capital programme going forward, to the extent we see little or no dividend coming from Port, because the rationale is to make it so they can finance the considerable capital investment that was undertaken. That is always something you might wish to revisit. But there would be an implication in terms of affordability of their plans going forward.

The Minister for Treasury and Resources:

They are completely funding the new airport arrivals, for instance, which is a £43 million capital project. It is coming out of their own funds.

The Deputy of St. Mary:

We appreciate that. Thank you.

Deputy K.F. Morel:

I was just thinking, we mentioned airport arrivals, you mentioned earlier from a duty-free perspective, there was a day many years ago when Jersey was seen as duty free and retail was benefiting from that. Along with other tools, do you think there is a role that the Treasury Department play in trying to reinvigorate that side of the Island's economy, this idea that it is a retail destination, that it is somewhere you can come to and get lower prices?

The Minister for Treasury and Resources:

Are you referring to duty free or just generally?

Deputy K.F. Morel:

Well, just the work that you could do to support the retail sector in that way and is duty free part of that?

The Minister for Treasury and Resources:

Well, it is very difficult, because a lot of people complain that they are paying import duty, for one thing, but also V.A.T., which in theory, and I think Paul mentioned it earlier, the retailer should be exempt from that. However, that is very much down to the retailers to sort that out. Duty Free, we have looked at, before presenting this Budget, as well as to what options we have. A lot of people say you go to Guernsey for a business meeting and duty free is available to you. Should it be closed down? Should it be expanded? There was one mention of reducing the import of cigarettes, not tobacco as such, to only 40. It is all very well having these ideas, but no law or regulation is any good unless you can enforce it. How do you do that? It is quite difficult on the duty-free import and

export frame. As far as reinvigorating the retail sector then that is an Island-wide question, not just Treasury.

Deputy K.F. Morel:

I was wondering if you could see a role for Treasury to play. Obviously, we have Economic Development and they have a role to play certainly, but I was just wondering if you see there being any possibility, any position, where Treasury could help.

The Minister for Treasury and Resources:

With this Budget, which is very concise, balanced and affordable that we have done that for what we consider is very uncertain times, not just for us, but obviously for Europe. It is a very balanced budget. Like I say, it does not really have a massive effect on anybody. You might want to say something.

Assistant Minister for Treasury and Resources:

Obviously, one of the reasons people did come here, along with the beaches, the sand and the sun, is because it was a cheap place to come. As I mentioned the other day when I spoke about it, you go to places like the rugby club, which still do attract large number. Last weekend we had 800, 900 people come over from London. One of the comments you always hear is: "It is very expensive now", particularly with drink and cigarettes, et cetera. We did try to make a move this year with keeping alcohol prices down. I think it is 50p or 60p a pint now more than the average price in the U.K., which is not great. We made an effort, we made a step in the right direction. It was the first time, so the BBC told me, I was not aware of it, that that has been below inflation. It is a step in the right direction. More needs to be done on that and many other things to bring people here and to get the High Street back up and running. However, there is no magic wand for the High Street, I do not think.

Treasurer of the States:

Just balancing that off, the duty and combined taxation on that pint is less in Jersey than it is in the U.K. It is the pre-tax price, for whatever reasons, I am not commenting on that, that makes that pint more expensive.

Deputy K.F. Morel:

Exactly and that is why I mentioned the Competition Regulator.

Assistant Minister for Treasury and Resources:

Exactly right and there are discussions to be had with the brewery organisations over here around that. I certainly will be contacting them and I will let you know how I get on.

Deputy S.M. Wickenden:

There is contacting them and then there is doing an official report and review. Would you be considering doing an official report and review to understand why such things as fuel, cigarettes and alcohol are much higher despite the fact that our duties are lower than in the U.K.?

[12:00]

The Minister for Treasury and Resources:

Well, that sort of review is conducted before we present a Budget. So the Budget then is the result of all the reviews that we have done. We do not just pick a figure out of the air and snap it down on paper. It is all very carefully reviewed.

Deputy S.M. Wickenden:

Going back to the development of the airport, that is within Ports of Jersey, because as an exercising or shareholder function you will have a business plan produced to you and you will have a chance to input at that stage, will you not?

The Minister for Treasury and Resources:

Yes.

Deputy K.F. Morel:

Thank you so much indeed.

The Minister for Treasury and Resources:

Thank you, Chair. Thank you very much.

Deputy K.F. Morel:

Thank you for your time. Thank you.

[12:01]