

STATES OF JERSEY



GOODS AND SERVICES TAX: RESTRICTION ON AMENDMENT OF 3% RATE (P.19/2008) – COMMENTS

**Presented to the States on 21st February 2008
by the Minister for Treasury and Resources**

STATES GREFFE

COMMENTS

The rationale for this proposition appears to be that if the exceptional economic performance of the past 2 years is sustained, then it might be possible to reduce the rate of GST, to say 2%. The economic justification for this proposition is therefore flawed.

Economic growth in 2006 (the last year for which we have information) was nearly 7% and we know that in 2007 unemployment has fallen to a record low of 1.4% and that participation rates of people in employment have continued to increase above already high rates.

The economy has therefore been through a very strong phase and these are the times when there is likely to be very little spare capacity in the economy. If the economy maintains this momentum into 2008 and 2009 as the Deputy suggests, it would be a serious case of economic mismanagement to reduce GST below 3%. This would just add to demand in the economy and inflationary pressure at a time when we have already seen inflation increase due to factors from outside the Island – oil and food prices. We would all be less well-off as a result, as higher inflation makes Islanders and our businesses worse off.

Furthermore, members should be reminded our 3% GST rate will be the lowest in the world and that a reduction to 2% or less would reduce the yield in proportion to the administrative cost.

The aim of the States should be to keep the rate of GST fixed at 3% indefinitely and avoid either increasing or decreasing the rate in response to short-term fluctuations in the economy. We have a new Stabilisation Fund in place that allows us the flexibility to alter policy in the face of an economic downturn and to put money away in the good times. The Fiscal Policy Panel has been appointed, and will report this year on what tax and spending policies are right in response to the economic conditions facing the Island. We should not be making knee-jerk policy decisions in the meantime.

Accordingly it is strongly recommended that the States rejects this proposal and confirms its commitment to maintain the rate of GST at 3% for the foreseeable future.