WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES
DEPUTY G.P. SOUTHERN OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY 1st MARCH 2011

Question

"Will the Minister confirm that the income tax revenue from the profits of non-finance companies in 2007 was £82 million and that the total tax estimate for 2010 from non-finance companies (non 10% and utilities 20%) is £13.5 million, a reduction on the 2007 figure of £68.5 million?

Can the Minister explain to members why this revenue loss is so much greater than the estimate of £30 million lost revenue from the zero component of zero-ten previously given and will he state how this relates to the £10 million "cash flow" loss due to the abandonment of deemed distribution and attribution?

Will he further inform members how he proposes to re-coup some revenue from these zero rated companies and how his proposals will avoid ring-fencing either non-locally owned non-finance companies or the previously exempt companies and thereby breaching the EU Code on Business Taxation?

Will he also explain what scope there is for local owners of zero-rated companies to "roll-up" dividends in the companies they own in order to convert profits into a capital gain? What powers does the Minister have under the Income Tax Law or elsewhere to ensure that any loss of revenue from zero-rated companies is minimised?"

Answer

As the question is effectively four questions in one the answers are numbered as though the paragraphs in the question had been numbered one to four.

1. The figure of £13.5 million was provided to the Deputy in the answer to his oral question 6053 of 15th February 2011. In the time available it has not been possible to confirm the source of the quoted figure of £82 million or his resulting calculation. It would be helpful if the Deputy could confirm the source of this data, and do so in any future questions so that answers can be most helpfully provided.

2. In asking this question, the Deputy does not seem to appreciate that Jersey, and indeed the world, has just suffered one of the greatest recessions in recent history. As explained on numerous occasions, the reduction in tax revenues caused by the introduction in zero-ten was dealt with at the time through a number of measures including GST, 20 means 20 and reduction in spending. Since then, tax revenues have been further affected due to the decline in economic activity.

   The estimated deferral of tax revenues from the removal of deemed distribution and attribution rules is not related.

3. The Deputy has asked the same question a number of times, including in oral question 6099 at this sitting, about what measures are being considered for raising revenues from non-financial services companies. I refer the Deputy to that response and the other statements

made in the Assembly on this issue. Whatever measures are introduced, they will apply to relevant companies regardless of their ownership. In that way, the issues of ring-fencing referred to by the Deputy are not relevant.

4. The Deputy has identified a potential tax planning measure that taxpayers could attempt to employ in the absence of deemed distributions or other anti-avoidance measures. Jersey has a general anti-avoidance rules (Article 134A) which the Comptroller can invoke if a taxpayer has entered into a transaction for which the purpose or one of the main purposes is the avoidance of tax. In commercial transactions, for which the main purpose is unlikely to be the avoidance of tax, it is common for the purchaser of such companies to acquire the company on a cash-free, debt-free basis. In these cases, the vendor would be required to distribute the cash which should be a taxable event.