STATES OF JERSEY ORDER PAPER

Tuesday 2nd December and subsequent days, as required

SUPPLEMENTARY

D. PRESENTATION OF PAPERS

(a) Papers for information

Matters presented under Standing Order 6A(1)(a)

Criminal Injuries Compensation Board: report and accounts for 2002. *Home Affairs Committee.*	R.C.50/2003.
Draft Health Insurance (Medical Benefit) (Amendment No. 58) (Jersey) Regulations 200- (P.168/2003): comments. *Finance and Economics Committee.*	P.168/2003. Com.

(d) Papers to be lodged "au Greffe" under Standing Order 17A(1)(a)

La Carrière, Bellozanne Valley, St. Helier: transfer of administration. *Environment and Public Services Committee.*	P.184/2003.

K. PUBLIC BUSINESS

Budget 2004: eighth amendments.
Connétable of St. Helier.
(attached).

Budget 2004: ninth amendments.
Deputy P.J.D. Ryan of St. Helier.
(attached).

Budget 2004: ninth amendments - amendment
Deputy L.J. Farnham of St. Saviour.
(attached).

Budget 2004: tenth amendments
Deputy L.J. Farnham of St. Saviour.
(attached).

Budget 2004: eleventh amendment.
Deputy L.J. Farnham of St. Saviour.
(attached).

Budget 2004: twelfth amendments
Deputy J.A. Bernstein of St. Brelade.
(attached).

Budget 2004: thirteenth amendments
Deputy L.J. Farnham of St. Saviour.
(attached).

Draft Income Tax (Amendment No. 23) (Jersey) Law (P.159/2003)–
second amendments.
Deputy L.J. Farnham of St. Saviour.
(attached)

Budget 2004: fourth amendment – comments.
Finance and Economics Committee.
(attached).

Budget 2004: fifth amendment – comments.
Finance and Economics Committee.
(attached).

Budget 2004: sixth amendment – comments.
Finance and Economics Committee.
(attached).

Budget 2004: seventh amendment – comments.
Finance and Economics Committee.
(attached).

Draft Income Tax (Amendment No. 23) (Jersey) Law (P.159/2003)–
comments.
Finance and Economics Committee.
(attached)

M.N. DE LA HAYE
Greffier of the States

28th November 2003.

BUDGET 2004: EIGHTH AMENDMENTS

PAGE 28 and 29

(a) *To reduce the estimate of revenue expenditure of the Economic Development Committee from £18,537,500 to £18,187,500;* and

PAGE 15 and 16

(b) *To increase the estimate of revenue expenditure of the Finance & Economics Committee from £19,196,300 to £19,546,300 by adding –*

£350,000 to the amount set aside for Jersey Finance Limited under 'Non-departmental – other expenditure' thereby increasing the sum in this category from £481,100 to £831,100.

CONNÉTABLE OF ST. HELIER

Report

Whether we like it or not, Jersey is reliant upon the finance industry for its continued prosperity, and the high standard of health, social and education services which Islanders enjoy and which they have come to expect. Economic diversification is an important goal, but it is nonetheless vital, given the uncertainty of income forecasts in the coming years, that we maximise the potential income of the best performing part of our economy.

In recent years we have been careful to develop a reputation for the provision of financial services which is second to none, carrying out the recommendations of the Edwards' Report and ensuring that we have a highly-regulated industry, overseen by the Jersey Financial Services Commission. We have, perhaps, been less assiduous in selling ourselves and bringing in new business. There is no doubt that there is much more work to do if knowledge of our 'brand' is to be as accurate and up-to-date as it should be. There is still a great deal of ignorance 'out there' about what we do in Jersey, about why we do it so well, and even, about where Jersey is! Indeed, the light is under the bushel, as far as the marketing arm of our finance industry, Jersey Finance Limited, is concerned. In preparing this amendment I could find no reference to it in the Budget book, nor to the £250,000 it is due to receive in funding from the States in 2004.

At a number of recent forums held to discuss States' finances I have voiced my concerns over the mismatch that exists between our expenditure on our secondary and tertiary industries when contrasted with our expenditure on our core business. If we compare current investment in Finance Industry with other industries –

	Agriculture	Tourism	Finance
Civil Servants	64	40	1
States 'grant'	£8m	£8m	£250k
Contribution to GNI	1%	6 -10%	66%

Source: States Economic Adviser; States Treasury; Jersey Tourism Annual Report 2002

We see the extent of this mismatch. And the extent to which we relay upon the financial services industries, which employ 12,000 people – a quarter of the Island's workforce - may be seen from the contribution they make to our income from taxation:

Tax take from Industry in 2002 (States budget estimate)

	£m	
Corporate	208	(70% of Corporate tax take)
Employees	117	(50% of Personal tax take)
	325	

Source: States Economic Adviser

It is also worth pointing out that the industry itself currently contributes £350,000 in members' subscriptions to the activities of Jersey Finance Limited ie, £100,000 more than the States.

I voiced my concerns to members of JFL and my intention to seek to persuade the States in the Budget to increase its spending on marketing our primary industry, by a very small percentage of the Economic Development Committee's overall spending on our other industries. By a happy coincidence, members of JFL had just made a presentation to the EDC to bid for an extra £350,000 as additional States' investment for business development, and had been advised informally that EDC would make a bid for the additional funding from the General Reserve.

If this is the position then it is unsatisfactory, in my view. The General Reserve is bound to come under severe pressure during 2004, and should not be subject to informal commitments in the latter stages of 2003. Nor am I convinced that EDC's budget cannot be adjusted to provide a more logical distribution of marketing support between the Island's industries. I believe that it can be left to the EDC to identify which of the various support, marketing, advertising and PR services listed on page 28 of the Budget book will be reduced, if the States support this amendment.

There are no manpower implications from this proposition and the financial implications are self-explanatory.

BUDGET 2004: NINTH AMENDMENTS

PAGE 2 –

(1) *In the estimates of income from Indirect Taxation –*

Reduce the income from Impôts on Spirits from £4,048,000 to £3,983,000;

Reduce the income from Impôts on Wines from £5,123,000 to 4,782,000;

Reduce the income from Impôts on Beer and Cider from £6,087,000 to £5,308,000; and

Increase the income from Impôts on Tobacco from £14,148,000 to £15,333,000

(2) *In the estimates of income from Indirect Taxation –*

Reduce the income from Vehicle Registration Duty from £ 4,755,000 to £3,617,000

DEPUTY P.J.D. RYAN OF ST. HELIER

Report

1) The practical effect of the amendments to the duty of alcohol and tobacco is to limit the duty increases on alcohol to 3.5% rather than agreeing the more substantial increases proposed by the Finance and Economics Committee. The duty on tobacco would be increased by a sum equivalent to the total estimated sum that will be lost by reducing the duty on alcohol so the proposal is revenue neutral. There are no manpower implications.

The practical effect of the amendment is –

(a) to reduce the proposed increase in duty on a litre of spirits from 40 pence to 26.9 pence;

(b) to reduce the proposed increase in duty on a bottle of table wine from 10 pence to 3.2 pence;

(c) to reduce the proposed increase in duty on a pint of beer from 4p to 0.8p (less than 5% alcohol) and from 6p to 1p (more than 5% alcohol);

(d) to increase the proposed increase in duty on a packet of cigarettes from 25 pence to 44.5 pence;

The States recently debated the Tobacco Strategy and a clear mandate for reducing its consumption was agreed. The Alcohol strategy has not yet been debated so in that respect I believe the taxation status quo in real terms on alcoholic products may be appropriate at this time and that is why the increases are suggested at or around the Jersey cost of living.

This amendment is not intended to indicate my opinion one way or the other regarding alcohol abuse and its associated problems for that is a debate for another day.

In terms of the effect on the economy – I believe that the negative impact on the cost structure of a Jersey holiday will be much less if tobacco products are seen as expensive as opposed to a pint of beer or a glass of wine.

It is arguable that more local people are employed in this side of the entertainment industry and would therefore stand to lose if there is a downturn. I also believe that there may be better opportunities for the Tobacco importers/manufacturers to limit the impact of the tax increase by absorbing some of them into their pricing structure than may be the case in the brewery, wines and spirits sector where in my opinion the market is operating in a much more competitive way.

(2) The purpose of this amendment is to freeze vehicle registration duty at its current level.

VRD was introduced in January 2003. The new tax although significant was not particularly onerous at the small engine end of the scale but amounted to about 10% at the other end of the scale where for many businesses the lion's share of their profits lay.

We have seen many of the predictions of the local motor trade become reality.

- VRD income has been at the very low end of the range anticipated by the Treasury
- Sales of new vehicles have reduced over 2001 by about 30% as people are encouraged to extend the ownership cycle.
- Corporation Tax revenues from the sector will undoubtedly be lower

The last ten years has seen a considerable consolidation of suppliers in the local market for motor vehicles. This has been driven by reducing margins imposed on dealers by manufacturers (as in turn have their margins reduced due to stiff global competition) and increasing demand for investment in new technology and facilities on the part of dealers as well as competition at the dealer level itself.

The latest bout of consolidation has certainly been accelerated by the advent of VRD if not actually been the root cause of it, and we are now in the position whereby a very small number of players have very considerable market dominance. In the absence of a Competition Law and a JCRA with powers to stop the abuse of a market dominant position this is a potentially dangerous situation. I emphasise potentially because at this time there is still enough competition to ensure the market is operating properly.

I am concerned however that a further increase in VRD might seriously further de-stabilise the sector with grave consequences for local businesses and those employed in them as well as for the Island's consumers due to reduced choice and competition in the longer term.

Review of Vehicle Taxation

Although not explicit in this amendment I am suggesting there should be a delay of one year before any change to the current VRD arrangements are put in place. This is so that a full and comprehensive review of all aspects of taxation on motor vehicles can take place that should include the complexities and the effects on the market of each element of tax.

In the absence of such an initiative by Finance and Economics I will in any case bring a Report and Proposition to give the States an opportunity to debate the desirability of such a study early in 2004, although of course I hope that will not be necessary.

There are no manpower implications from this amendment. The financial implications are self-explanatory.

If these amendments are adopted there will be consequential amendments to the draft Finance (Jersey) Law 200- (P.158/2003).

BUDGET 2004: NINTH AMENDMENT - AMENDMENT

PAGE 2 –

In paragraph (2) after the words "from £4,755,000 to £3,617,000" *insert the words* "; and further reduce the income from Vehicle Registration Duty by £256,000 by fixing the rate of duty for non new vehicles at 50% of the rate for new vehicles."

DEPUTY L.J. FARNHAM OF ST. SAVIOUR

Report

The purpose of this amendment is to reduce the amount of duty paid on non-new vehicles to 50 per cent of the rate for a new vehicle. 'Non-new' is defined as being over 12 months old from the date of first registration..

There are no manpower implications and the financial implications are self-explanatory.

If this amendment is adopted there will be a consequential amendment to make in the draft Finance (Jersey) Law 200-. (P.158/2003).

BUDGET 2004: TENTH AMENDMENTS

PAGE 2 –

(1) *In the estimates of income from Indirect Taxation –*

(a) Reduce the income from Impôts on Spirits from £4,048,000 to £3,948,000;

(b) Reduce the income from Impôts on Wines from £5,123,000 to £4,871,000;

(c) Reduce the income from Impôts on Beer and Cider from £6,087,000 to £5,127,000;

(d) Increase the income from Impôts on Tobacco from £14,148,000 to £14,449,000;

(e) Reduce the income from Vehicle Registration Duty from £ 4,755,000 to zero.

(2) *In the estimates of income from Stamp Duty –*

Reduce the estimate from £13,950,000 to £12,950,000 by not increasing Stamp Duty for property values up to and including £750,000.

DEPUTY L.J. FARNHAM OF ST. SAVIOUR

Report

The practical effect of these amendments are to limit the increase in the duty on alcohol, with the exception of beer and cider on which no increase is proposed, to a level far less substantial than suggested.

(1) The practical effect of these amendments is –

(a) to reduce the proposed increase in duty on a litre of spirits from 40 pence to 20 pence, this figur represents a reduction to a 2.6% rise;

(b) to reduce the proposed increase in duty on a bottle of table wine from 10 pence to 5 pence, thi figure represents a reduction to a 5.4% rise;

(c) not to increase the duty on beer and cider;

(d) to increase the proposed increase in duty on a packet of cigarettes from 25 pence to 30 pence, thi figure represents a 14.3% rise;

(e) To abolish all Vehicle Registration Duty.

There is no doubt that that the introduction of Vehicle Registration Duty has caused new and non new vehicle registrations to decline severely. Combined with a general downturn in the market and increased pressure from manufacturers the results on the motor trade in Jersey have been catastrophic. Not only was the introduction of Vehicle Registration Duty a body blow to the industry but also to those who work within it. The recent news that a major multiple franchise holder is on the verge of bankruptcy should illustrate that no field of local business can sustain such an imposed decline in its sales without serious consequences.

I am more than aware that if adopted the above amendments will create a larger deficit in the

2004 budget. Although, not specific to these amendments I will be asking for alternative methods of raising income to be explored for the 2005 budget and I believe, that to assist with this process, a comprehensive review into the taxation motor vehicles be carried out as soon as possible.

(2) The purpose of this amendment is self explanatory. It aims to prevent any increase of stamp duty on properties valued less than £750,000.

There are no manpower implications from this amendment. The financial implications are self-explanatory.

If these amendments are adopted there will be consequential amendments to the draft Finance (Jersey) Law 200- (P.158/2003).

BUDGET 2004: ELEVENTH AMENDMENT

PAGE 2 –

(1) *In the estimates of income from Indirect Taxation –*

Reduce the income from Vehicle Registration Duty from £4,755,000 to £4,522,000 by exempting hire cars from the duty.

DEPUTY L.J. FARNHAM OF ST. SAVIOUR

Report

The purpose of this amendment is to prevent Vehicle Registration Duty being applied to hire cars.

For the first year of Vehicle Registration Duty hire cars were exempted from the duty.

There are no manpower implications and the financial implications are self-explanatory.

If this amendment is adopted there will be a consequential amendment to the draft Finance (Jersey) Law 200- (P.158/2003).

BUDGET 2004: TWELFTH AMENDMENT

PAGE 2 –

(1) *In the estimates of income from Indirect Taxation, reduce the income from Vehicle Registration Duty from £4,755,000 to £2,008,000 by –*

(a) fixing the rates of duty for new vehicles as follows –

Up to 125cc	£25
126cc to 500cc	£50
501cc to 1,000cc	£100
1,001cc to 1,400cc	£200
1,401cc to 1,800cc	£300
1,801cc to 2,000cc	£500
2,001cc to 2,500cc	£600
2,501cc to 3,000cc	£750
3,001cc to 3,500cc	£1,000
over 3,500cc	£1,250

(b) fixing the rate of duty for non new vehicles at 50% of the rate for new vehicles.

DEPUTY J.A. BERNSTEIN OF ST. BRELADE

Report

The Finance and Economics Committee has indicated that for 2004 there will be an increase in Vehicle Registration Duty of 25per cent, ten times higher than the target inflation rate and approximately six times higher than the RPI. The purpose of this amendment is to reduce the rates of vehicle registration duty and to introduce a lower rate for non new registrations. A firm definition of a non new registration is required to avoid loopholes and it is proposed that any vehicle over one year old should qualify for a reduced rate of VRD. For this purpose the definition of 'non-new' is defined as being over 12 months old from the date of first registration..

The current rates for 2003 are –

Up to 125cc	£25
126cc to 500cc	£50
501cc to 1,000cc	£100
1,001cc to 1,400cc	£300
1,401cc to 1,800cc	£500
1,801cc to 2,000cc	£750
2,001cc to 2,500cc	£1,000
2,501cc to 3,000cc	£1,500
3,001cc to 3,500cc	£2,000
over 3,500cc	£2,500

If the amendment is adopted there would be no change to the first three bands and a reduction for the other bands. In addition the amendment would introduce a 50% rate for cars that are not new when registered.

There are no manpower implications and the financial implications are self-explanatory.

If this amendment is adopted there will be a consequential amendment to the draft Finance (Jersey) Law 200-

(P.158/2003)

BUDGET 2004: THIRTEENTH AMENDMENT

PAGE 15 AND 16 –

To increase the estimate of revenue expenditure of the Finance and Economics Committee from £19,196,300 to £19,681,300 by adding –

> £485,000 to the estimate of the Income Tax Department by not introducing a penalty for the late submission of income tax returns.

DEPUTY L.J. FARNHAM OF ST. SAVIOUR

Report

The amendment itself is self explanatory as it aims to prevent a penalty for the late submission of income tax returns.

My concern is that many people who, for whatever reason, may find it difficult or impossible to return their income tax return by the prescribed day will suffer. It appears to me quite wrong that a person who owes £300 or £400 pounds in tax will be fined £200 for not completing a form on time. This seems to place too much emphasis on discharging the administrative process rather than to preserve the object of the process which is ensuring the individual pays the correct amount of tax.

There are no manpower implications.

If this amendment is adopted there will be a consequential amendment to make the change in the Draft Income Tax (Amendment No. 23) (Jersey) Law 200- (P.159/2003).

DRAFT INCOME TAX (AMENDMENT NO.23) (JERSEY) LAW 200- (P.159/2003): SECOND AMENDMENTS

PAGE 22, ARTICLE 7 –

In Article 7, in the inserted Article 90AA –

(a) *in paragraph (2), after the words* “shall be entitled” *insert the words* “, subject to paragraph (5) of this Article,”;

(b) *for paragraph (5) substitute the following paragraph –*

“(5) Where the loan or the aggregate of the loans in relation to the dwelling-house exceeds the specified limit, only the specified percentage of the relevant interest payments shall be eligible for relief of tax.”;

(c) *after paragraph (7) add the following paragraph –*

“(8) In paragraph (5) of this Article –

“relevant interest payments” means the portion of the total interest payable on the whole of the loan or the aggregate of the loans in relation to the dwelling-house as equates to the portion of the loan or the aggregate of the loans that exceeds the specified limit;

“specified limit” means the average price for a dwelling-house in the Island [determined by/in accordance with the Jersey House Price Index] for the year preceding the year of assessment;

“specified percentage” means 90% for the year of assessment 2004, 80% for the year of assessment 2005, 70% for the year of assessment 2006 and so on, reducing to 0%.”

PAGE 27, ARTICLE 11 –

In Article 11, after the words “In Article 26 of the Law -” *insert the following paragraph –*

“(aa) in paragraph (1) for the word “December” substitute the word “November”;”

PAGE 28, ARTICLE 12 –

At the end of the Article add the words “with the exception of paragraph (aa) of Article 11, which shall have effect for the year of assessment 2004 and ensuing years”.

PAGE 34, INSERT NEW ARTICLE –

After Article 25 insert the following Articles –

“26 Schedule 2 paragraph 7 amended

In paragraph 7 of Schedule 2 to the Law after paragraph (b) add the following paragraph –

‘(c) accommodation provided for the use of –

(i) a person employed in any establishment in which lodging for tourists is provided for reward, or

(ii) a person employed in the cultivation of crops or the husbandry of livestock.’

27 Schedule 2 paragraph 10A inserted

After paragraph 10 of Schedule 2 to the Law insert the following paragraph –

‘**10A Meals**

There shall be left out of account any meal provided for –

(a) a person employed in any establishment in which lodging for tourists is provided for reward; or

(b) a person employed in the cultivation of crops or the husbandry of livestock.’ ”

And renumber the remaining Articles accordingly.

DEPUTY L.J. FARNHAM OF ST. SAVIOUR

REPORT

Cap mortgage interest relief

The purpose of this amendment is to cap mortgage interest relief at the annual average house price of the preceding year. For example the average house price value for 2003 would be the cap for 2004, the average house price for 2004 would be the cap for 2005 and so on.

Mortgage interest relief in excess of cap

The purpose of this amendment is to phase out mortgage interest relief above the cap over a period of 10 years at the rate of 10% per annum.

Many people when acquiring a mortgage enter into a long term financial commitment based on the Income tax rules of the time. The proposal to simply cap mortgage interest relief at £275,000 and allow no further relief would be a sudden and unfair blow to the many people with mortgages in excess of £275,000 who have invested in their homes based on the current law.

- In 2003 to date there have been approximately 530 transactions up to £300,000 and 470 over that level.

- 13% of total transactions in 2003 have been for over £500,000

The phasing out of such relief over a period of time would ultimately achieve the same objective and, bearing in mind that it is a key objective of the Finance and Economics committee to create a fairer tax system, provide a much fairer method of dealing with the abolition of this type of interest relief.

Benefits in kind

The purpose of this amendment is not to impose tax liability of benefits in kind in relation to food and accommodation on Tourism and Agricultural workers.

Tourism and Agricultural workers tend to rely on the fact that accommodation and meals provide an essential part of their employment package and in many cases they simply have no choice as the nature and logistics of the job often require members of staff to live in.

Tourism and Agriculture are facing challenging times and introducing further tax burdens into these very important sectors of the economy would only further damage the ability of these industries to remain viable.

BUDGET 2004: FOURTH AMENDMENT - COMMENT

The Deputy is concerned that the proposed increase in the late payment surcharge will cause hardship.

In accordance with Article 26 of the Income Tax (Jersey) Law 1961, as amended, the Comptroller of Income Tax has discretionary powers to waive the surcharge under various circumstances. The Comptroller has used, and will continue to use this provision in consideration of individual cases, where hardship may have been or is likely to be caused.

Furthermore, in the event that a tax liability amounts to £500 or less the Comptroller of Income Tax does not levy the late payment surcharge.

Given the above, and that the amendment does not propose compensatory increases in income or decreases in expenditure, the Finance and Economics Committee cannot support this Amendment which would increase the deficit of the States by approximately £675,000 in 2004 and subsequent year.

FINANCE AND ECONOMICS COMMITTEE

BUDGET 2004: FIFTH AMENDMENT - COMMENT

This amendment purports to use part of the increase to duty on fuel to fund the bus service, it does not achieve this: instead it proposes funding the bus service from the General Reserve.

However, the Committee, in recognising the latest financial forecast, has proposed to allocate to the General Reserve only the amount necessary to fund an increase in the States pay bill of 2.5% and increased pension costs.

No allocation has been made in 2004 to fund unforeseen contingencies.

Whilst there remains a brought forward unspent balance on that contingency, the Committee is aware of significant funding pressures in excess of that remaining balance.

All Committees will already have to exercise very strong financial discipline to restrain the significant calls upon the Reserve within the funds available given that no allocation is being made to it in 2004.

Should the States regard the ongoing funding of buses to be a priority, then it should either seek to reduce other expenditure or propose a further increase to fuel duty.

As the proposal does not actually identify compensatory savings or increases to income, the Committee cannot support the amendment.

FINANCE AND ECONOMICS COMMITTEE

BUDGET 2004: SIXTH AMENDMENT - COMMENT

States Members must be clear that in considering this amendment, the States would be revisiting the exemption limits for 2003, which were approved by the States during the 2003 Budget debate. Deputy Southern's amendment is, in the view of the Finance and Economics Committee retrospective and unacceptable.

Irrespective of the above, it should be recognised that Income Tax thresholds in Jersey are very generous. It has been the policy of the Finance and Economics Committee since 1999, to freeze exemption limits, to increase the tax net and reduce the number of taxable persons who do not actually pay tax.

Despite maintaining exemption limits, a pensioner in Jersey will still pay significantly less tax in Jersey than in neighbouring jurisdictions. As the Budget book (page xxiii) shows a married pensioner with an income of £20,000 (which includes the majority of pensioners in the lower two quintiles reported in the Income Distribution Survey) pays £68 in Jersey, £400 in the Isle of Man, £460 in Guernsey and £2,512 in the UK. It should also be noted that there are additional VAT and duty burdens in the Isle of Man and the UK which far outweigh the duties levied in Jersey.

Given the above, and that no compensatory increases in income or decreases in expenditure have been proposed in this amendment, the Finance and Economics Committee cannot support this amendment which would increase the deficit of the States in 2004 and in subsequent years by £675,000.'

FINANCE AND ECONOMICS COMMITTEE

BUDGET 2004: SEVENTH AMENDMENT - COMMENTS

States Members must be clear that in considering this amendment, the States would be the exemption limits for 2003, already approved by the States during the 2003 Budget debate. Senator E.P. Vibert's amendment is, in the view of the Finance and Economics Committee retrospective and totally unacceptable.

Irrespective of the above, it should be recognised that Income Tax thresholds in Jersey are very generous. It has been the policy of the Finance and Economics Committee since 1999, to freeze exemption limits, to increase the tax net and reduce the number of taxable persons who do not actually pay tax.

Despite maintaining exemption limits, the taxpayer base in Jersey will still pay significantly less tax than in neighbouring jurisdictions. As an example, a married couple with an income of £30,000 pays £2,228 Income Tax in Jersey, £1,400 in the Isle of Man, £3,000 in Guernsey and £4,364 in the UK. It should also be noted that there are additional VAT and duty burdens in the Isle of Man and the UK which far outweigh the duties levied in Jersey.

The recent Income Distributions Survey, quoted by Senator Vibert, states that 24% of the population live below the relative low income threshold of 60% of the median Island Income level. However those threshold incomes are mostly not liable to any tax under the proposals of the Finance and Economics Committee and therefore do not benefit from the proposed amendment.

Given the above and particularly that the proposed amendment does not do what it sets out to achieve, and that no compensatory increases in income or decreases in expenditure have been proposed, the Finance and Economics Committee cannot support this amendment as it will increase the deficit of the States by £2.5million and subsequent years.'

FINANCE AND ECONOMICS COMMITTEE

DRAFT INCOME TAX (AMENDMENT No. 23) (JERSEY) LAW 200- (P.159/2003): AMENDMENTS - COMMENTS

1. *Increasing the mortgage interest tax relief cap from £275,000 to £300,000*

The Committee gave very careful consideration to the appropriate level for the cap in proposing a figure of £275,000.

The Committee believes that the cap proposed is set at a level which the leaves the majority of entry level home buyers unaffected and most importantly retains the protection for most first time buyers.

Of borrowings registered in 2002, only 90 out of a total of 2,769 were in the £275,000 to £300,000 band whereas 2,351 were for amounts below £275,000.

Whilst it is accepted that that the proposal of Deputy Southern will provide additional relief for those in £275,000 to £300,000 band, it will also provide further relief for all borrowings above £275,000 and not just those with borrowings of up to £300,000.

2. *Restriction on interest tax relief for borrowings in respect of commercially let property.*

The Committee feels very strongly that Members must be clear that the proposed amendment impacts upon all borrowing in respect of the purchase and / or extension of all commercially let property, whether it be residential or commercial property, rather than the letting of residential property discussed in the Report accompanying the amendment.

In addition to the above, it is a generally accepted principle of tax law that commercial taxation is based upon the matching of expenses against income and that interest incurred in commercial activities is a legitimate expense. The proposal will be discriminatory and inequitable against those with a high proportion of borrowing.

Furthermore, the amendment will render Jersey less favourable to its competitor jurisdictions, such as Guernsey, Isle of Man and the UK where there is full tax relief on commercial borrowing genuinely incurred. Particularly in times of financial challenges the Island needs to be taking measures to attract investors not deter them.

The full consequences of the proposed amendment are not known nor have they been fully researched in bringing forward such a proposal without any consultation. Many of the effects may not be those intended by the Deputy.

The Committee is alarmed that an amendment such as this with potentially extremely damaging effects to the Island’s economy should be brought forward with no consultation and consideration. The Committee is fundamentally opposed to it.

FINANCE AND ECONOMICS COMMITTEE