

STATES OF JERSEY

Public Accounts Committee

MONDAY, 21st JULY 2008

Panel:

Deputy S.C. Ferguson of St. Brelade (Chairman)
Deputy J.G. Reed of St. Ouen
Deputy A. Breckon of St. Saviour
Senator L. Norman
Deputy R.G. Le Hérissier of St. Saviour
Mr. C. Swinson (Comptroller and Auditor General)
Mr. M. Magee
Mr. R. Bignell

Witnesses:

Mr. M. Campbell (Comptroller of Income Tax)

Deputy S.C. Ferguson of St. Brelade (Chairman):

Welcome to the Public Accounts Committee. I am sorry we kept you waiting.

Mr. M. Campbell (Comptroller of Income Tax):

That is not a problem.

Deputy S.C. Ferguson:

I believe James has already told you it is the only time in his life he has been able to keep awake. For the purposes of the tape I wonder if you could just introduce yourself.

Mr. M. Campbell:

It is Malcolm Campbell, Comptroller of Income Tax.

Mr. R. Bignell:

Roger Bignell, independent member.

Deputy J.G. Reed of St. Ouen:

Deputy James Reed.

Deputy R.G. Le Hérissier of St. Saviour:

Roy Le Hérissier, States.

Deputy A. Breckon of St. Saviour:

Alan Breckon.

Deputy S.C. Ferguson:

Sarah Ferguson.

Mr. C. Swinson (Comptroller and Auditor General):

Chris Swinson.

Senator L. Norman:
Leo Norman.

Mr. M. Magee:
Martin Magee.

Deputy S.C. Ferguson:
This is the first time we have had you up before us.

Mr. M. Campbell:
Yes, it is.

Deputy S.C. Ferguson:
For the purposes of the records, I wonder if you could just describe your professional background.

Mr. M. Campbell:
My professional background, my goodness. I used to work for Her Majesty's Revenue and Customs. I passed my professional exams. I joined several firms of chartered accountants in London and then came over here. In 2000 I was appointed Comptroller of Income Tax. I am a Fellow of the Chartered Institute of Taxation, a Fellow of the Chartered Institute of Management and I am a Bachelor of Arts in Public Administration.

Deputy S.C. Ferguson:
The main activities of the department?

Mr. M. Campbell:
Assessing and collecting tax, income tax, and now, Goods and Services Tax.

Deputy S.C. Ferguson:
And the forecast of the income tax?

Mr. M. Campbell:
Yes, we do that as well. That is one of my jobs, yes.

Deputy S.C. Ferguson:
The management structure is what?

Mr. M. Campbell:
Comptroller, Deputy Comptroller and Assistant Comptroller. We look after the Investigations Division, Personal Tax Division, Business Corporate Tax Division, I.S. (Information Services) and Finance Division, Business Tax Division, and we also do international tax agreements. We have just signed a tax information exchange agreement with Germany. We have one with the U.S.A. (United States of America) and the Netherlands and I have met with the U.S.A. and Netherlands officials half a dozen times now. Once the appropriate regulations have been passed in both jurisdictions I expect I will be meeting with the Germans as well and the States, I think, are due to approve the same tax information exchange agreements with all the Nordic countries.

Deputy S.C. Ferguson:
So what do you consider the principal challenge is facing the department?

Mr. M. Campbell:

Well, it was Zero/Ten. This all started in 1998 with the O.E.C.D (Organisation for Economic Co-operation and Development) when it initiated it's the harmful tax competition stance. It started then and 10 years later in 2008 and our new Zero/Ten corporate tax structure has gone operational, 3rd June, for new companies. It is going operational for existing companies 1st January next year. So Zero/Ten is operational and all this stuff is on our website for the guide, for the forms and all the other stuff. G.S.T. (Goods and Services Tax) went live and is in. So the 2 very major challenges for income tax, G.S.T., Zero/Ten, we have got them through, we have collected them and they are now live and operational. There will be glitches but we will handle them as they come along.

Mr. R. Bignell:

As Comptroller, what systems do you have in place to make sure what principal control are there to make sure that personal tax liabilities are, in the first place, correctly assessed and, secondly, that once assessed are correctly collected?

Mr. M. Campbell:

Well, we have auditors crawling all over us. We have, typically, 4 audits a year. So we have independent auditors, external, and we have independent auditors internal looking at what we do. In addition, we have what we call a checking system. We do a random sample of all assessments for every assessor and we check to see what the error rate is to see how they are performing. We have a target rate - they must not exceed 5 per cent error rate. The tax law is quite complicated.

Mr. R. Bignell:

Yes, I appreciate that.

Mr. M. Campbell:

Typically, we keep all that and you will see the results in the annual report which we publish on our website. So we do this random sampling and random checking. With this random sampling and random checking, and also the Personal Tax Director himself looking at the work, and the stuff that comes in because every day I look at the post coming in. Any complaints and I ask for a full report to see what the situation is. So we have the external auditing function on everything we do and we have internal checks as well.

Mr. R. Bignell:

Right. What is your reaction to the external auditors' report that there was no formal documentation of Comptrollers over personal tax and no documentary evidence of controls operating? What is your response to that?

Mr. M. Campbell:

We disputed that and I do not think the auditors fully understood what we do. So we disputed that.

Mr. R. Bignell:

Have you been able to challenge them on that?

Mr. M. Campbell:

Well, auditors say what they wish to say. We have had audits now for the last 30 years that I have been in the department. Nobody has ever said that before to anyone.

Mr. R. Bignell:

So do you have full documentation in place of controls?

Mr. M. Campbell:

We have the documentation in place for the final checks, yes.

Mr. R. Bignell:

So you dispute that statement.

Mr. M. Campbell:

Well, we did dispute it.

Deputy R.G. Le Hérissier:

What was the result of your sort of comments? What have they said to your comments?

Mr. M. Campbell:

I am not sure. There was a meeting held -- because there were quite a lot of comments being made by the auditors and we disputed a lot of those comments. We challenged them in writing. There was a meeting with my I.S. and Finance director and the auditors.

Mr. R. Bignell:

They did not choose to change what they said in the report, obviously.

Mr. M. Campbell:

They are independent people and they can say what they wish.

The Deputy of St. Ouen:

I am quite interested by your comments there because it is an introduction to the external auditors' report. They are quite clear in that disagreements arose with management about matters that are of concern and their being resolved. In other words, they are being considered and properly dealt with before the report is published or written. If that is the case, I am trying to understand -- I hear the comments you make and I am still trying to reconcile your comments with those of the external auditors.

Mr. M. Campbell:

I do not think I have seen this file before. When was that published?

The Deputy of St. Ouen:

Sorry, this issue is a copy of the auditor's report.

Mr. M. Campbell:

What date is that?

The Deputy of St. Ouen:

It has been published about 2 months ago.

Mr. C. Swinson:

It is the report of 27th May.

Mr. M. Campbell:

Well, I can tell you we had major disagreements with PricewaterhouseCoopers on this - huge disagreements. We were not at all happy with what they said because all the previous years we had none of this stuff at all coming up. I can show you the emails that were sent. They were not very pleasant emails, I can tell you. We took the view they did not really understand our operations. (Mr.

Campbell had not received this prior to the meeting)

Deputy S.C. Ferguson:

So do you check assessments then? Who does spot checks on assessments?

Mr. M. Campbell:

The assessment managers do the spot checks on the assessment officers and the Personal Tax director oversees the whole thing.

Deputy S.C. Ferguson:

But do you not have some form of procedures where it actually says it?

Mr. M. Campbell:

Yes, we do. We even have a list of the names of the tax base we check.

Deputy S.C. Ferguson:

But is it part of the job description, you know: "You will check X number of assessments"? Or you would spot check randomly?

Mr. M. Campbell:

I am not sure it is in our job description but we certainly do it and we always do it. I mean, if you look at the annual reports on the Income Tax website you will see what the error rate of personal tax assessments this year were and we get that statistic from the random sampling we do on assessments. It is published on the website.

Mr. R. Bignell:

Interesting. On the second point of my question, the collection side, how do you satisfy yourself that all the money is then collected correctly?

Mr. M. Campbell:

Well, we get monthly reports of tax collected, companies, individuals, investment-holding companies. So we have monthly reports on the amount of tax we collect and at the end of the year we tally up and compare with the previous years, and there are always people who do not pay their tax because (a) they cannot afford it, (b) they have left Jersey and (c) they ask for deferred payment. Now if they are in difficulties we will try to help if we can but, essentially, our job is to collect the taxes and make sure that public services in Jersey run. So we are not very popular. We are not very popular at all but we do try and help people when we can. Lots of employees now complain that their effective rates are too high but when you have arrears of tax you have to collect the arrears as well as making sure that the tax we collect for their current year is okay and we do the best we can.

Mr. C. Swinson:

Can I just go back to the control point? The random tests that you are describing at what point are they carried out in the process? Are they carried out before the liability is agreed with the tax payer or are they carried out in retrospect sometime later?

Mr. M. Campbell:

I think they are carried out when the assessments have been closed. So when they close the assessments there is a random check, because we cannot random check unless the assessment is closed.(The Comptroller has now confirmed that the random checking system takes place throughout the year and that documentary evidence is kept)

Mr. C. Swinson:

So what are the controls over the closure of assessments?

Mr. M. Campbell:

Monthly reports. The senior management team, when we see what every single assessor -- the number of cases a single assessor has, the cases he has closed

Mr. C. Swinson:

But that is after they have been closed?

Mr. M. Campbell:

No. This is every month before they are closed.

Mr. C. Swinson:

But if they are reporting what has been closed the report is after they have been closed? The question I am asking is before an assessment is closed what are the controls over the closure of assessments? That is, are they controls that say assessments over a certain amount? Are they that an assessor has to seek the agreement of somebody else within the department with a greater degree of responsibility?

Mr. M. Campbell:

No. The way they operate is this. An assessment officer typically has about 3,000 cases, which is a very high workload. Outside the profession, where I used to work, we had a typical workload of 600 cases - we have 3,000. The assessor closes cases every day of his working life; every week he closes, every month he closes. There is always a balance left to close until the whole assessment issue is set out in October, November. So every month we know what every single assessor has done, what he has not done and what he has to do. That is the control check that we have.

Mr. C. Swinson:

This control is the way they are progressing.

Mr. M. Campbell:

Yes.

Mr. C. Swinson:

But that makes it sound as though the only control over the quality of the assessment, that is the control to make sure that the assessments are agreed and closed in the right amount. Is the retrospective check after closure which is done on a random basis?

Mr. M. Campbell:

That is correct.

Mr. C. Swinson:

Now, this may be why there is an issue between you and PwC because I would infer that when they are talking about controls they are talking about controls before closure.

Mr. M. Campbell:

Well, I will tell you what, given the resources, I will do that.

Mr. C. Swinson:

No, no, no. The question I was going to ask you that follows from that is as Comptroller of Income Tax how are you making yourself comfortable that before the horse has bolted - before the assessment is

closed - the right liability has been assessed?

Mr. M. Campbell:

I rely on the professionalism of my staff.

Mr. C. Swinson:

Nothing else?

Mr. M. Campbell:

Well, plus the random check when they have all closed their assessments. When they get a "performance review appraisal for the year" those statistics are in front of the person giving the "performance review appraisal for the year"

Mr. C. Swinson:

Now what instructions are there, for example, to assessors to consult on oddities? Something you might see -- I suspect there may be cases that fall outside normal parameters where assessors are expected to consult with others. There may be particularly sensitive assessments. There may be particularly large assessments where you would expect the assessor to consult with others to ensure that proper processes have been through. Do you see what I mean?

Mr. M. Campbell:

Yes. Every year we issue assessing guidelines for assessors. An assessor must never close an assessment where there is uncertainty as to the treatment of the income or expenses of that assessment without seeking guidance, either from the Assessment manager or the Personal Tax director. They know themselves they can go at any time to the Assessment manager or to the Personal Tax director if they have any issue at all with an assessment in closing.

Mr. C. Swinson:

It is one thing to say if you are unhappy with the position you are in you have got to go and talk to the manager, whoever, but it is another one to say that within these guidelines or within these parameters, if an assessment trips a parameter, or whatever, then you have to go and talk to your manager?

Mr. M. Campbell:

Well, I have to tell you it is a long, long time ago since I prepared assessing guidelines. **[Laughter]**

Mr. C. Swinson:

You knew your career was building on something ...

Mr. M. Campbell:

Yes, prosecution investigations. **[Laughter]** But my recollection is we really do very copious notes on assessing because do not forget we have new people coming into the department all the time. We have lost 7 qualified and experienced staff in the last year. We had a hiatus when we could not even fill those jobs. We have now got 7 brand new people in and they really are brand new people so we have to issue them guidelines to show them this is the way you have to do this. I can show you a copy of the assessing guidelines if you wish, but to be perfectly honest with you, I cannot remember everything that in the existing guidelines because that is not the kind of duty I now deal with.

Deputy S.C. Ferguson:

I am sorry, I am probably being a little dumb on this, "closure" means that you have sent it out to the tax payer?

Mr. M. Campbell:

When we close the assessments we have closed every single assessment that we have on our books for all the tax payers we have on our books, yes. We have closed them. Then they go out.

Deputy S.C. Ferguson:

Then they are sent out to the tax payer?

Mr. M. Campbell:

Well, the self-employed got sent out first, yes, then the I.T.I.S. (Income Tax Instalment Scheme) tax payers go after the self-employed, yes. Then they are sent out.

Mr. C. Swinson:

But I think the point of closing the assessment is that effectively you have reached agreement.

Mr. M. Campbell:

No, oh, no.

Deputy S.C. Ferguson:

No? It has not gone to the tax payer yet?

Mr. M. Campbell:

We send the assessment to the tax payer and the tax payer then has the right of appeal against that assessment and many do.

Deputy S.C. Ferguson:

Is that right, yes.

Mr. M. Campbell:

Many do appeal because they have not sent their tax return in. So the appeal -- you have estimated my assessment here: "You cannot assess me on this." So we say send in your a tax return and then we will change it." We have many, many appeals come in. The assessments go out, many of them are accepted because they are correct, based on the tax return. Some appeal because of whatever reason then the appeal process starts. We could have an assessment open for 3, 4, 5 years. We have an appeal going to the Royal Court in the next few months.

Mr. C. Swinson:

We have not any

Mr. M. Campbell:

We reduced the claim. He appealed. We went to the independent Commissioners of Appeal who are the only people who can overturn my judgments. He lost there. I won there. He has appealed to the Royal Court and it will be in the Royal Court in the next couple of months. So that is the appeal process. They can go all the way to the Privy Council. Not many do but nobody has ever gone to the Privy Council, I do not think.

Mr. C. Swinson:

Forgive me for being tedious about this, I sense that the area that you obviously would have been commenting on was not the retrospective random assessment but the procedures which apply to assessment before closure, where they, in effect, common to the --

Mr. M. Campbell:

I am not sure.

Mr. C. Swinson:

Okay. Well, I can find out and perhaps we will have an exchange afterwards.

Mr. M. Campbell:

The problem we have with checking before closure is, I mean, we are under huge pressure in Income Tax. I mean, we have a lot -- can I just use some statistics here? Since I.T.I.S. came in we used to have 52,171 personal tax payers - 52,171. Do you know how many we have now? With I.T.I.S., 71,039, and that is because I.T.I.S. has caught all those seasonal people who used to come over here, pay no tax and just go away and never see them again. Now, because we have apportionment of tax allowances you will only get the allowances that you are entitled to for the time you are here, we are catching all those people and they are all paying tax for the first time. Now, when people come to an employer there is an immediate 20 per cent tax charge unless they come in to us and give get an effective rate. We have caught all those people. So we are under huge pressure. I take your point we could do some checking before the assessments close but, frankly, I put it blunt, we do not have the resources.

Mr. C. Swinson:

If I could try the Committee's patience by asking another question. I think that what you have just said is extremely important because it raises the question about how managerially the States handle that pressure. On the one hand you could continue a process as you have in the past where you seek to agree assessments. Alternatively, you could move further towards the system on the mainland and in the States where the tax payer has an obligation to return what the tax payer thinks is the liability. Basically, the Income Tax Department accepts that liability but exacts condign punishment for these people if they get it wrong and you have find it.

Mr. M. Campbell:

Yes, I agree with you, there is a system like that.

Mr. C. Swinson:

Exactly. Yes, because this is driving you down that route, I suppose.

Mr. M. Campbell:

It is, absolutely correct. We are under such pressure that we almost cannot cope. The exit interviews our staff have given us -- they have left and we say: "Why are you leaving?" "We like working here. We like the people but we do not like the pressure of work and we do not like those -- some of those people that come in and see us and visit us." They are under huge pressure. One way out of this is to make people go on to the self-assessment system. They self-assess through the income tax website. If they self-assess that saves an assessment case for one of my assessment officers. But the U.K. (United Kingdom) experience has not been a very successful one. People simply do not seem to want to self-assess in the culture that we have in the U.K. We have over 90,000 people coming into the help desk asking for assistance on tax issues every year. Some people come in 3 or 4 times a year. Now, we are introducing this system, we will see how it goes but I suspect the take up, initially, will be fairly low. I can give you some figures, if 3,000 self-assessed -- 3,500 self-assessed. That is a potential saving of one assessment officer. If 9,000 self-assess we can switch 2 assessment officers into investigations to collect back taxes and we will have 1 do the random checking and the random sampling of the assessments of those people who self-assess. So, it is a balance.

Mr. R. Bignell:

So your work cases have gone up from 50,000 to 70,000?

Mr. M. Campbell:

Yes.

Mr. R. Bignell:

Have you had an increase of assessors?

Mr. M. Campbell:

We have some assessors -- I have had an increase into my assessing capability but I have had to lose some posts that I really wanted. I was going to have those posts and I was told that if I want those additional assessors for I.T.I.S. then you are going to have to lose those. So I lost those posts.

Deputy R.G. Le Hérisier:

Who did you lose, Malcolm?

Mr. M. Campbell:

I wanted to appoint an accountant to Income Tax. I want an accountant as a tax man. I would really like to appoint an accountant to Income Tax. I had a post and I had to lose it. It seems to me that an accountant -- they should get an accountant at Income Tax. We have never had an accountant for the tax side.

Senator L. Norman:

Why do you want an accountant, Malcolm?

Mr. M. Campbell:

When we start doing auditing for G.S.T. we are going to be going out there and doing audits, it would be nice to have an accountant who knows how financial statements are put together and all this new stuff, I.F.R.S. (International Financial Reporting Standards). It would be useful to have to an accountant not only for G.S.T. but also for my investigations unit. I mean, a very long time ago I used to -- I used to work for an accountant - I put together sole trading accounts from boxes of paper. Is anybody familiar with this?

Mr. C. Swinson:

Brown paper bags.

Mr. M. Campbell:

Cheque stubs, bank statements, receipts in shoe boxes.

Mr. C. Swinson:

You are older than you look. **[Laughter]**

Mr. M. Campbell:

I know what goes on out there and I would like an accountant, who has done what I have done, to go out there and help us.

Senator L. Norman:

I will turn the question the other way round, how the hell are you going to do those G.S.T. audits without an accountant?

Mr. M. Campbell:

We have internal auditors. We have 3 auditors who are trained in audit.

Mr. C. Swinson:

Who are not accountants.

Mr. M. Campbell:

Who are not accountants. I would like an accountant.

Senator L. Norman:

But the work that you need to do and you want to do you are going to be able to do without an accountant because you have got the auditors.

Mr. M. Campbell:

Well, I do not have an accountant so the auditors will have to do. Of course, there are other issues to accountancy. I had an argument with 5 firms of accountants, I think, in the last 2 years on, I think, U.I.T.F. 40 (Urgent Issues Task Force). It is a new accountancy rule and they have all now accepted the view that I agreed. But it would be really, really useful to me if I had a professional accountant to advise me on those things.

Mr. C. Swinson:

U.I.T.F. 40 is an interpretation of financial reporting standards on the mainland that deals effectively with the valuation of work in progress so that for all professional firms it affected the definition of their profit because it affected the way in which they valued at the end of each year the amount of work which they had undertaken for clients but not yet billed.

Mr. M. Campbell:

Yes.

Mr. C. Swinson:

That is what lies behind that.

Mr. M. Campbell:

Yes, which is really an accountancy issue rather than a tax issue, as such.

Mr. C. Swinson:

The rules in the U.K. I will be careful now because I am not quite sure what the position is here, is that you prepare your accounts on F.R.S. (Financial Reporting Standards) basis, a U.K. G.A.A.P. (Generally Accepted Accounting Principles) basis, and provided you have done that straight down the line then the tax assessments will be based on those accounts. But this was the case in which they had not followed U.K. G.A.A.P. because they were partnerships and were not obliged to by the law and the Revenue turned that against the firms respectively and said: "You have to follow U.K. G.A.A.P. for you to use your profits-based tax system."

Mr. M. Campbell:

There was quite a dust up on this, a big dust up. In fact, I thought I would have to go to the Commissioners and appeal this but I said: "Look, I am going all the way on this."

Mr. C. Swinson:

But in my experience there are lots arguments about the application of U.K. G.A.A.P. in defining profits that are then used as the basis for tax assessment. How do you deal with those issues if you have nobody with a qualification in that area of the problems?

Mr. M. Campbell:

I engage with my opposite numbers from Guernsey and the Isle of Man at least twice a year. We bring to the table common operational administrative policy issues. I have been very fortunate so far as my previous -- my opposite number in Guernsey was a qualified chartered accountant so I picked his brains -- very resourceful. The problem now is he is retired. He retired last month.

Senator L. Norman:

Have you got his home number? [Laughter]

Mr. M. Campbell:

I think he is in Sardinia at the moment. So we are under pressure. We will do what you suggest we should do and I am sure it is the right thing to do but we really do not have the resources. We are under huge pressure and my staff - 7 lost in the last year - that is almost unheard of in the last 10 years of Income Tax. They just say: "I cannot handle this pressure."

The Deputy of St. Ouen:

What is the likely financial effect or the ability, should I say, of the department to raise all taxes and collect all taxes that are due because of the manpower issues?

Mr. M. Campbell:

What we have done every year so far. Everything we are charged to do we have done it every year in the past. We will do it again this year. But, yes, we are stretched.

The Deputy of St. Ouen:

Yes, I acknowledge that but what is your assessment? I mean, are you suggesting that although you are stretched you are collecting all the money that is due or do you believe that there is the possibility that because of the lack of manpower you are not collecting the full amount?

Mr. M. Campbell:

I know for a fact no tax man in his right mind would say that a democracy is collecting all the taxes that are properly due under the tax laws of that country because I know people avoid tax.

The Deputy of St. Ouen:

Okay, well let us talk about risk assessment. I mean, you have obviously carried out risk assessment on what the effects of being short of staff -- what is your assessment, generally, of the ability to collect all tax that is due, currently, under the present structure you have with the stresses and strains of manpower?

Mr. M. Campbell:

The vast majority of people in Jersey are honest and they declare their true income. We collect that tax and I have no problem with that. We collect, I think, 97 per cent -- the tax we charge we collect around 97 per cent of it, from my recollection. But there are people in Jersey, and we know this, who do not declare their full income details and we have an investigations division and a prosecutions division which I used to head a long time ago. We investigate people who do not declare their full income. I think last year we collected £2 million of back taxes and penalties -- I think. We readily collect over £1 million in back taxes and penalties from people who do not declare their correct income. In the last 12 years we have prosecuted in the Royal Court for tax fraud 8 people. There is currently another case on my desk for prosecuting another tax payer for tax fraud. We typically prosecute one case a year, one case every 15 months, something like the Revenue do. You cannot prosecute everyone who breaks the tax law, it is impossible, but we prosecute for evasion or fraud. Now If I was given the luxury of investigating officers I can virtually guarantee that for their salary of £45,000 they would collect every year back taxes and penalties of around £300,000.

The Deputy of St. Ouen:

So just to follow that thought for a minute, you are presenting this overall picture to, presumably, the Treasury and Resources Minister and saying to him: "Currently the department is stretched, we have got these 19,000 extra tax payers. There are difficulties we face. We are losing staff because they cannot cope with the pressure and as a result we are losing income, we are maybe not gaining it as much." How strong a picture are you painting? Perhaps the next question is, are you happy that the issues that you are raising are being dealt with?

Mr. M. Campbell:

Yes, I am happy because, to be fair to Treasury, I went to Treasury and said: "Look, guys, this is the additional work bulge, I need more staff." They gave me more staff. I do not have a beef with Treasury, I do not. What I am saying to you is if I got more resources for investigations I would collect more back taxes and penalties because I know there are people out there who are not giving us full details of all their income. But I am not complaining about the current situation I am in. We are busy, we are very stretched, especially with 7 new trainees on board but those trainees in the next 3 to 4 years will be fully trained and then we will be okay again.

Deputy S.C. Ferguson:

They are all taking their A.T.I.I. (Associate of Taxation Institute Incorporated), are they not?

Mr. M. Campbell:

No, they are taking their intermediate exams. I cannot get people in Jersey to take their full tax exams, I just cannot convince them because those tax exams are very, very difficult and they are all U.K. When I was in the U.K., working in the U.K., I found them difficult and I had to do V.A.T. (Value Added Tax), which I never did in my professional life, I had to pass my V.A.T. exams, which were horrendous. Trying to get people in Jersey to do their full ATII exams is very difficult

Deputy S.C. Ferguson:

Going on from this, succession planning with your computer system.

Senator L. Norman:

Sorry, Chairman, I just wanted to follow up what James was saying. I accept what you say totally about no problems with the Treasury and you said to James: "All I am saying is that if we had 2 additional staff at £45,000 each we could collect a minimum of £300,000 for each one."

Mr. M. Campbell:

Yes, rough figures.

Senator L. Norman:

Of course. But, I mean, have you put that case to the Treasury or to the Ministry?

Mr. M. Campbell:

I have agreed with the Comptroller and Auditor General's observations on that when he made the observation that if we do self-assessing and we save assessment officers, we can redirect them into investigations and they will then collect.

Senator L. Norman:

Okay, I understand. Thank you.

Mr. M. Campbell:

You did make this observation?

Mr. C. Swinson:

I did indeed.

The Deputy of St. Ouen:

I agree with you.

Mr. C. Swinson:

You quoted me as saying that you should do that and I do not think I quite went that far because if I had been pursuing it I would have raised the point and that implies a very big change in the culture of taxes. I wonder whether that is an issue that should be more widely understood and appreciated because the changes towards a culture in which the tax collectors become much more aggressive because they are picking up what might be exceptions. The psychology of the arrangement is that by being very, very hard on the people who try to dodge the system you hope to encourage the others rather than trying to achieve agreement with everybody about what their correct assessment is.

Mr. M. Campbell:

This is why of course I sanction prosecutions. To my knowledge Guernsey have not prosecuted a taxpayer in Guernsey for the last 15 years. I do not know why, but we have prosecuted, I think, 8 in Jersey and in one case the Bailiff sent out a clear message and this was about 7 years ago: "Tax evasion is unacceptable. It is a burden for your fellow citizens if you do not pay your correct tax taxes at the right time." So, we prosecute to encourage the others because we cannot check every single file. It is impossible. We just cannot.

Deputy S.C. Ferguson:

You just have to go for the big ones.

Mr. M. Campbell:

Well, not necessarily. We go for the bad ones. We prosecuted one person for tax of just £4,000 because there was deliberate deceit in documentation. False documentation.

Deputy S.C. Ferguson:

So, if we go on to succession planning. What steps are you taking to ensure that your department's activities are not unduly affected by the loss of the services of the current I.S. Finance Director? We are told that he is somewhat aged, relatively speaking.

Mr. M. Campbell:

Well, I think he is 59 and he is staying on until 65.

Deputy S.C. Ferguson:

Excellent.

Mr. M. Campbell:

We had an independent review of income tax 2 years ago by Deloitte and Deloitte recommended that my I.S. Finance Director have a deputy. He was not given a deputy. The idea was the deputy would train up when he eventually goes, but because of ... well, there are all kinds of constraints on recruiting civil servants and appointing civil servants and budgets - budgets are restricted. I am not criticising anybody. I am just saying we did not get what that report recommended.

Deputy S.C. Ferguson:

But I thought you had assistant directors.

Mr. M. Campbell:

We do. We have now managed to get over this problem because we have put somebody in place who is effectively this person's deputy. So, if he pops his clogs suddenly there is somebody who can take over.

Deputy S.C. Ferguson:

Yes, but if you only have one member of the Finance Department who understands how to get reports out of the machine, are you not a little exposed on that? The PwC (Pricewaterhouse Coopers) report said that the I.S. Finance Director is the only member of the Finance Department who understands how reports can be requested in the software that the department uses.

Mr. M. Campbell:

I think there is probably a degree of truth in that, yes, because when I do a tax model, if I say to this individual: "Look, let us assume exemptions will be increased by 5 per cent, let us assume child allowances increase by 10 per cent and let us assume income increases by 2 per cent, can you model that for me and see what the effect is on tax revenues." He is the only one who can do that. So, that is perfectly true what that report says there. This person is training up this other individual to help him in that area and also to be able to do that if the need arises.

Deputy S.C. Ferguson:

Yes, because presumably your programme was developed separately your I.S. management and support presumably have not been centralised.

Mr. M. Campbell:

No, for a very good reason because if you see into my I.S. system you see all taxpayer records. All my taxpayer records are on the computer system and I cannot allow anyone to see the tax records of anybody unless they are specifically authorised by me under the Royal Court oath of office.

The Deputy of St. Ouen:

In another particular area you just highlighted the fact that an unprecedented 7 staff have left the department and you have had 7 new ones to train. I acknowledge that succession planning will never accommodate that sort of large amount of change. However, what efforts are the department putting into ensuring that that situation does not arise again?

Mr. M. Campbell:

What, lose 7 staff?

The Deputy of St. Ouen:

Yes.

Mr. M. Campbell:

Well, there is an additional factor in them leaving income tax. There is the work pressure at income tax but there is another additional factor; it is called money. They leave because they are offered more by firms of accountants out there. So, they have more money for less work. If you were 28 years of age that seems a pretty attractive option: "More money, less work, I will have that." I cannot stop people resigning.

Mr. R. Bignell:

You also said they were getting fed up with the aggression and the treatment.

Mr. M. Campbell:

Yes.

Mr. R. Bignell:

Are you doing training on how to manage that?

Mr. M. Campbell:

Yes, we have. We train our people. They are trained in the Institute of Customer Services, I think it is now. I am sure you must have heard about the incident 5 weeks ago. We were interviewing somebody for a job at income tax and I think it goes something like this. He sat down and one of my officers said: "Would you like to put that bag in the corner?" He said: "I would not touch that bag. There is a bomb in that bag." Evacuation of Cyril le Marquand House. So ...

The Deputy of St. Ouen:

You have identified a problem ...

Deputy S.C. Ferguson:

I am sorry, James, I have a couple of questions I would like to get in.

The Deputy of St. Ouen:

You identified a problem of the staff leaving, but what are you actually doing about it? Or are you just saying: "We cannot do anything, so therefore we have just accepted it" when it comes back again?

Mr. M. Campbell:

I will tell you what I do. I give them a supportive culture, a culture where they can develop, a culture where they can learn, a culture where I give them 80 per cent of the professional fees paid for them if they take professional exams, I give them a nice work environment and I do all I can for them. I cannot give them bonuses; I am not allowed to. I cannot change some taxpayers' perceptions of tax staff when they come into the help desk. I can only do what I can do. But I do not have a training pool because I do not have the budget for that training pool to have them in reserve so that when someone resigns I can push someone straight into that job. I do not have that reserve training pool.

Mr. C. Swinson:

In the *Spending Review Report* that I produced some months ago I commented that the States is able to recruit people for trainee stages because at that level the salaries are competitive, but by and large once people have been trained and have some experience under their belt the market value of their services is greater than the salaries the States pay with the result that those people are vulnerable to being poached.

Mr. M. Campbell:

I will not tell you the comment that was made to me about my own position this morning. I will not repeat it, but I take your point fully on board. Once you have professional training and there is a marked demand out there for you, and tax people there is a market demand out there for them, they are poached.

Deputy S.C. Ferguson:

So, going on from that, the Auditor General's suggestion in his spending review that perhaps some of the other collection functions of the States, like the social security contributions, could be done by the Tax Department would not meet with your approval.

Mr. M. Campbell:

Well, I have to tell you that under the current I.T.I.S. (Income Tax Instalment Scheme) system we

collect social security data from the employers for 'joined up government' and it is on our disc..... the income tax I.T.I.S. stuff comes in and the benefits in kind come in for us, and there is a separate stream for social security returns and we send that straight off to Social Security without looking at it. So, it comes in on the tax stuff and then it is sent off to Social Security. So, we are doing this already.

Deputy S.C. Ferguson:
So, it would make sense.

Mr. M. Campbell:
Well, it is a joined up government. It is part of the I.T.I.S. programme.

Deputy S.C. Ferguson:
Yes. So ...

Mr. M. Campbell:
We do not get the money; we get the data. So, the data comes into us and we send it straight off to Social Security and we have been doing that now for 3 years.

Deputy S.C. Ferguson:
Because my other comment from that is that now we have I.T.I.S. we have 20,000 more people paying tax. They are all at the low end of the scale. Is this what is causing the increase in supplementation?

Mr. M. Campbell:
I am not qualified to answer that question.

Deputy S.C. Ferguson:
Well, no, presumably they are all earning under £38,000 a year.

Mr. M. Campbell:
I do not fully understand supplementation. That is a Social Security thing. I dare not comment on it or else I am going to get in terrible trouble.

Deputy S.C. Ferguson:
The extra people paying tax are presumably at the lower end of the scale.

Mr. M. Campbell:
Not necessarily. For example, if a chef comes over to Jersey, and a chef earns quite a lot of money, and he is only here for 8 months of the year, the summer season, 6 to 8 months. He will pay tax now because; (a) we catch him, which we never used to do before; and (b) he gets only a proportion of his allowances for the time he is here and he pays tax. Supplementation would not affect this guy because he is only over here for 6 months, a year.

Deputy R.G. Le Hérissier:
How much additional tax revenue are you getting from the I.T.I.S. group, Malcolm?

Mr. M. Campbell:
Quite a lot. If you look at the Treasurer's Report ... let me just quote from this. We thought we would collect £177 million from salary and wage earners in 2007, we actually collected £196 million. That is a 15 per cent increase and that is the introduction of proportional tax allowances. That is catching seasonal workers. That is catching ghosts; people who came here, who we never saw them before. We catch them now. A lot of that growth is due to I.T.I.S.. There are other factors. I mean, there is

obviously earnings increases as well. People earn more and more people are joining the labour market. So, it is not all to do with I.T.I.S. but I.T.I.S. has been much more successful than we thought it would be.

Mr. M. Magee:

Malcolm, can I ask a question linked to that. It is really a more generic question. If you look through, and obviously it is a case of many years, you could view that performances were very good in terms of tax collection because its tests exceed budgets.

Mr. M. Campbell:

Yes. Well ...

Mr. M. Magee:

You see it in terms of the bottom line, in terms of big surpluses versus deficits that maybe were not even budgeted. You could view that as being good because it is prudent and you do not want to pitch in too much into your plans and it is quite good to over-recover, but contrary to that would be that some of the policies that have been led like G.S.T. (Goods and Services Tax), like 20 means 20 might have been predicated on poor forecasts. It is just really back to the question of where the accountants fit into the equation and things like that. Is that something that tended -- how did you look at this forecasting going forward? Because I know it is not an exact science, but if you end up getting a lot more in the coffers than you anticipated then it could be that you could have slid G.S.T. for an extra year or 20 means 20 could have been spread over 10 years, or not necessary at all.

Mr. M. Campbell:

Well, I will not address the political issue, but I will address the forecasting issue. We have always done tax forecasts on a prudent, cautious, conservative basis because experience has shown us; me, Bob Gager, that government likes more money coming in than was in the estimate. They do not like at all less money coming in than was in the estimate. So, that is prudent, cautious, conservative. We underestimated the impact I.T.I.S.. We did, but let me assure you there was no underlying reason here reducing the forecasts to make sure G.S.T. came in. That was not part of our thing at all.

Mr. M. Magee:

No, no, no. All I am saying is it is not a consequence. I am saying that big decisions have been made based on your forecasts, so therefore how robust is that process, because other decisions have been made because of those forecasts?

Mr. M. Campbell:

I am not sure I agree with that. Major decisions have been made because we have a new Zero/Ten corporate tax structure which is going to cost us a lot of money. 20 means 20, I.T.I.S. and G.S.T. has come in because of the new Zero/Ten corporate tax structure. That is why it is coming in. G.S.T., I.T.I.S., 20 means 20 has nothing at all to do with the forecasting you see here. It is to do with the forecasts that I have done of the Zero/Ten deficit, which have been backed up by OXERA, our independent economic advisors. They have done independent forecasting for me and we have both come to around the same ballpark figures. That is why the big decisions were made, Zero/Ten.

Mr. M. Magee:

Ultimately the decisions have still been made for the follow on taxes based on those forecasts. All I am saying is you have over performed against forecasts.

Mr. M. Campbell:

Yes, we have.

Mr. M. Magee:

Potentially there are bad bits as well as good bits. As you say the good bits are that it keeps the politicians happy because they like the good news of bringing in more tax than anticipated but the bad news is maybe it has driven some behaviours on decisions.

Mr. M. Campbell:

I am not getting into that!

Male Speaker:

I could answer that for you.

Mr. M. Campbell:

I thought I was going to be talking about this thing today (Comptroller holds up Financial Report and Accounts 2007) and I have all the stuff on the U.K. and Guernsey and their tax revenues.

Deputy S.C. Ferguson:

Well, this is the whole point. We are looking at the underlying financial management and obviously the things that bother us are the controls, succession planning. They are all the things that underpin accurate financial management.

The Deputy of St. Ouen:

The one thing that we do say to individuals that come to see us in public hearings is that if you do have any information or any comments that you want to make to the committee after the public hearing we are quite happy for you to send in any written information, or if you have information there that you would like to share with the committee feel free.

Mr. M. Campbell:

What I was going to say to you on the forecasting issue is that, yes, you are trying to predict the future here. There are a lot of variables here as well and I will say 2 things. I cannot predict the future. If I did I would not be here; I would be on a Caribbean beach winning the lottery every week and not in Jersey. This is the *Financial Times* 2 days ago: "Public Finances plunge to new low" because their forecasts (UK) are out the window. The forecasts are all gone. Guernsey is the same. I have Guernsey figures here. They collected £238 million in 2003. In 2004, what do you think their forecast would have been?

Male Speaker:

£215 million.

Male Speaker:

£245 million.

Mr. M. Campbell:

Do you know what it was? It went down to £235 million. Now, having seen that dip in one year, what do you think they would have said for 2005? It has gone from £238 million to £235 million. What would they have said?

Deputy A. Breckon:

Bring in G.S.T. [Laughter]

Mr. M. Campbell:

You are determined to get me on this G.S.T. It had fallen to £235 million. It was £238 million, fell to £235 million. What do you think they would say the next year?

Male Speaker:

£230 million to be on the safe side.

Mr. M. Campbell:

It went up to £258 million, an increase of £23 million. So, forecasting is not easy.

Deputy A. Breckon:

What was the actual, in the middle of that? With a forecast of £235 million you would want ...

Mr. M. Campbell:

Well, I do not know what the forecast was. I do not think it was the actual ...

Deputy A. Breckon:

Okay.

Mr. M. Campbell:

So, it is by no means easy, forecasting tax revenues.

Deputy S.C. Ferguson:

Surely by September to December, which is the budgeting season, you have a feel for the next year's tax.

Mr. M. Campbell:

Is this going to be made public, what I am talking about here? It is going to be made public? I thought it was a private hearing. My letter says a private hearing.

Deputy S.C. Ferguson:

No, it is a public hearing.

Male Speaker:

What does your letter say? [Laughter]

Deputy S.C. Ferguson:

In that case, perhaps we ought not to ask any more on that one.

Mr. M. Campbell:

Well, let me just give you an example of what can happen. A company paid its tax bill, and it was a large tax bill. We are talking about millions. Then it paid the same tax bill again under a different reference. Now, how do you account for that? I only picked this up when I thought: "This does not look right. There is something strange. This does not look right." So, I had to investigate this and I discovered this company had paid its tax bill twice and then I wrote to them and I said: "Look, do you realise you have paid your tax bill twice for the same year?" "Oh, dear, so we have." So, I had to repay the following year but they paid more than they should have for that year. That is just one example of what can happen.

Deputy S.C. Ferguson:

I would sack the Finance Director. Thank you very much indeed, Malcolm.

Mr. M. Campbell:

My pleasure.

Deputy S.C. Ferguson:

If there is anything else we think of we will be in touch and we will let you have a copy of the transcript just to ...

Mr. M. Campbell:

Can I excise things? I did not realise this was going to be a public hearing. I was being quite open and honest and free with you because I thought it was a private hearing. I did not realise it was a public hearing because my letter does say private.

Mr. C. Swinson:

The answer is, please identify anything in your responses that you think is ...

Mr. M. Campbell:

All right. Will that be okay if I say: "Look, this is a bit delicate"?

Deputy S.C. Ferguson:

Yes. If you highlight ...

Mr. M. Campbell:

I do not think I have said anything ...

Deputy S.C. Ferguson:

I do not think you have said anything.

Senator L. Norman:

But in fairness, Malcolm thought it was a private hearing so he should be able ...

Deputy S.C. Ferguson:

Oh, yes. If you see anything that you would rather not be in the public domain then we will honour it.

Mr. M. Campbell:

Then you can have me back to a public hearing.

Deputy S.C. Ferguson:

Then you will sit there and just say nothing.

The Deputy of St. Ouen:

How you underestimate the financial forecasts all the time.

Mr. M. Campbell:

Then I will say: "No comment."