STATES OF JERSEY

RETAIL TAX: RESCINDMENT OF STATES' DECISION (P.62/2018) – COMMENTS

Presented to the States on 6th April 2018
by the Council of Ministers

STATES GREFFE

COMMENTS

This Proposition is not asking the States to rescind the tax on large corporate retailers altogether – rather it is asking the States to reduce the maximum rate of tax applied to large corporate retailers retrospectively from 20% to 10%.

Accordingly, large corporate retailers will be chargeable to tax for the year of assessment 2018 at a maximum rate of 10% if this proposition is accepted, instead of the rate of 20% if this proposition is rejected.

The Council of Ministers strongly rejects this proposition.

Evaluation review

The Treasury is committed to a policy evaluation review of this measure when data from its first 2 years of operation becomes available in 2021. The Tax Policy Unit will assess whether the measure is delivering the revenues expected; and obtain advice as to what impact it has had on the economy relative to the economic and distributional analysis published in the Draft Budget Statement 2018 (**Appendix 1**).

Council of Ministers oppose proposition

In the meantime, the Council of Ministers continues to oppose a reduction in the rate of taxation now in force on the profits of large corporate retailers. Such profits were previously taxed at 20% (before the introduction of the 0% rate) and are now again being taxed at 20% – but only when they exceed £750,000 and on a sliding scale (from 0% to 20%) when profits exceed £500,000 but do not exceed £750,000. Companies with profits of £500k or less will continue to be taxed at the rate of 0%.

Budget 2018

The issue as to whether the rate of tax applied to large corporate retailers should be 10% or 20% was the subject of debate during Budget 2018. The Assembly voted overwhelmingly in favour of applying a 20% rate[1].

A reduction in the rate to a maximum of 10% would reduce revenue by £2.85 million per annum, and no alternative is offered as to how this revenue could be recovered through other measures. The FPP made it clear in their last annual report that the profile and scale of the measures proposed in Draft Budget Statement 2018 were "broadly appropriate and the remaining measures (or ones of equal value and economic impact) need to be implemented on time".

The arguments made by the Council of Ministers in advising the rejection of Senator P.F.C. Ozouf's Budget 2018 Fourth Amendment (P.90/2017 Amd.(4) (re-issue)) continue to stand, and they are attached for information (**Appendix 2**).

The States agreed the introduction of a large corporate retail tax in December 2016. During 2017 the Treasury consulted with Guernsey and the Isle of Man on how their

[1] Draft Budget Statement 2018 (P.90/2017): fourth amendment (P.90/2017 Amd.(4) (re-issue)), (**votes on paragraph (v) –** pour: 14, contre: 29; abstain: 0) http://www.statesassembly.gov.je/Pages/Votes.aspx?VotingId=4828

retail taxes were working, and also took steps to provide assurance that the introduction of a similar tax in Jersey would not jeopardise the integrity of our Zero-Ten regime. The Taxes Office identified potentially affected retailers and started to engage them in September 2017 to outline how a retail tax in Jersey could be made to work better than the Guernsey scheme. This included a tapering mechanism to ensure that the new taxation would not create a disincentive to growth. Retailers had at least 10 weeks to make representations to Ministers and to officials. Very few chose to do so, and none have since produced any data to justify a reduction in the rate of taxation from 20% to 10%.

The Council of Ministers notes that very few retailers have personally lobbied the Treasury about this measure.

Senator Ozouf's report highlights pressure on the retail sector and the failure of a number of UK high street chains. The Economics Unit analysis (**Appendix 1**) highlights that –

> "At the margin, this may affect investment decisions – but given the size of the tax as a percentage of overall cost base it is unlikely in itself to lead to firms downsizing, closing down or relocating."

In particular it should be noted that a positive rate of tax only applies to companies with profits in excess of £500,000, and only reaches 20% when profits exceed £750,000.

Locally owned companies

In the context of Jersey resident individuals who own shares in a company which is subject to the tax, the measure will largely be an acceleration of tax. This is because these individuals will be entitled to a tax credit when they receive a distribution out of the taxed profits.

Any tax paid under this measure will be offset against the personal income tax liability of the local shareholders (i.e. a tax credit attaches to eligible dividends).

Even overseas shareholders may also benefit from tax credits (or non-taxation of dividends) dependent upon the rules in force in their home jurisdiction.

Food prices

The Council of Ministers is obliged to dismiss the assertion that this measure will cause a significant increase in the cost of living and large increase in food prices. The measure now in force is estimated to affect around 20 large corporate retailers, possibly including retailers of motor vehicles, fuel, clothing, hardware, cosmetics and toiletries, clothing, jewellery, etc. Whilst not divulging taxpayer-confidential information, the Comptroller of Taxes has confirmed that only a small number of those potentially affected are involved in retailing food. That, taken together with the number of food retailers who are known not to be affected by this measure (and with the availability of tax credits described above) – makes it highly unlikely that there would be a significant increase in food prices on account of this measure, or that the impact would be felt "particularly acutely in the grocery sector" as alleged.

The extent to which the Senator claims this measure will increase food prices in the grocers affected, and any subsequent impact on the cost of living is unsubstantiated and in excess of that calculated by the Economics Unit. It is also not borne out by the experiences in both the Isle of Man and Guernsey following the introduction of their respective retail tax measures.

The Council understands that one corporate retailer has said publicly that its food prices will not be affected by this measure (JEP report on 23rd January 2018). Another has indicated that it is reducing food prices through a significant restructuring.

For further information on the work undertaken by the Tax Policy Unit during 2017, the Minister for Treasury and Resources also appends (**Appendix 3**) his replies to the Jersey Chamber of Commerce letter of 15th January 2018 (Appendix 4 of P.62/2018) and also a reply to a Jersey Consumer Council letter.

Finally, the Senator's report suggests that the tax on large corporate retailers may be in breach of the Competition (Jersey) Law 2005. This is not legally correct.

Budget 2018: Economic and distributional analysis of the proposed extension of corporation tax

Draft Budget Statement 2018

Appendix 11 – Economic and distributional analysis of the proposed extension of corporate tax

Summary

The Economics Unit has undertaken high-level analysis to identify the economic and distributional impacts of extending corporate tax to two additional groups of firms:

1. Large retailers
2. Some additional firms in the financial services sector.

Large retailers

Economic impact

The proposed tax on large retailers is likely to create an incentive to avoid the tax where possible and it is important that Taxes Office build in some mechanisms to prevent this. If it is not possible to avoid the tax, retailers will try to pass the cost on to customers, employees and/or suppliers. The impact on prices could be limited for a number of reasons:

- The retailers subject to the tax will often be competing against smaller retailers and against off-island retailers, neither of whom will face the tax.
- Some of the retailers affected are likely to be branches of large UK corporate retailers with national pricing structures.
- Locally-owned large retailers will have less incentive to increase prices as local shareholders will be able to offset the corporate tax against any personal tax they would otherwise have paid on the distribution/dividend of those profits.
- Profits are generally a small part of the price of retail goods.

Retailers may not have significant potential to reduce wages (or forgo increases), given that this may make it difficult to recruit in a competitive labour market. It will be difficult for an efficient firm to cut costs elsewhere, including reducing staffing or hours, without a resulting reduction in activity (and therefore turnover and profits).

If firms are unable to pass the tax on in prices or by reducing other costs, they may need to absorb the tax increase through reduced profits. At the margin, this may affect investment decisions – but given the size of the tax as a percentage of the overall cost base it is unlikely in itself to lead to firms downsizing, closing down or relocating.

Distributional impact

In distributional terms, any increase in prices is likely to be mildly regressive (i.e. those with the lowest incomes pay more as a proportion of their income). However, this is not expected to represent a significant additional burden on any of the income quintiles. The distributional impact may vary from this if some items/sectors are more likely to see price rises than others, but this will depend on how competitive the market is for individual items, who the competitors are, and how sensitive demand might be to changes in prices of specific products.

Financial services

Economic impact

Similarly to the proposed tax on large retailers, financial services firms are likely to try to look to protect their levels of profit either by avoiding the tax, by passing on the costs to customers or by attempting to reduce other costs in their business.

There may be limited opportunity to avoid the tax without significantly changing the business itself, given that most of the activities require a licence/registration from the Jersey Financial Services Commission and the possession of this licence/registration will be used as the basis on which to decide whether the company is liable for the tax.

In order to avoid cutting profit margins, firms will attempt to pass on as much of the cost as they can without losing significant market share. However, this may be difficult for a number of the firms – particularly those which are competing globally or are competing with firms who are not facing the tax and therefore not seeing any change in their costs. As with the large retailers tax, there will generally be no net impact for local shareholders.

It may be difficult to reduce wages or forgo wage increases if it makes it difficult to recruit in the labour market and it could be difficult for firms to make cuts to staffing numbers or hours while still meeting the needs of customers. The exception may be if there are some productivity improvements /efficiencies to be achieved but firms who have identified potential efficiencies are likely to have implemented them either with or without the increased tax.

If post-tax profits fall due to the tax, this will result in a marginal reduction in the incentive to invest in Jersey. It is not clear to what extent this will result in any relocations or reductions in employment – but as the tax is relatively low by international standards and will only be levied on profitable companies, it is unlikely to be the only reason for such a response. It will form part of firms' usual investment decision process which will consider locations on the basis of not only taxation but also geographical location, regulatory environment, reputation, availability of skills, etc.

Distributional impact

In terms of distributional impact, there is not likely to be any significant impact on any of the income quintiles as none of the quintiles spend significant amounts on financial services in general, or on the specific companies affected. The limited impact that could be observed is likely to be closer to proportional – i.e. higher income households will pay a similar proportion of their income as those in lower income households.

While the average impact on each quintile is likely to be low, there may be larger impacts on individual households for whom expenditure on the sectors affected is more significant as a proportion of income.

Counterfactual

When considering the economic and distributional impacts of extending corporate tax in the manner proposed it is necessary to think about what the counterfactual might be. That is, what would be the impacts of alternative approaches that would have similar sized fiscal impacts – on the revenue and/or expenditure side of the budget. The choice is not between the impacts of the additional tax and doing nothing where there are no economic or distributional consequences. Most alternative approaches would have economic and distributional impacts and the real issue is what would have the least damaging economic consequences balanced with what is deemed the fairest approach.

1. Introduction

The Economics Unit has undertaken a high-level analysis to identify the economic and distributional impacts of extending corporate tax to two additional groups of firms:

1. Large retailers
2. Some additional firms in the financial services sector.

The assessment of the 'economic impact' will look at the types of companies likely to be affected, and consider what the high-level impact might be on the economy in terms of employment, salaries and wages, prices, productivity and total output (gross value added).

The 'distributional impact' will consider which sections of society are likely to ultimately pay for the increase in taxes – specifically considering how the incidence of the tax will occur across the income distribution.

The remainder of this report consists of four sections:

- **Section 2** covers the **background** to the report
- **Section 3** explains some of the **key concepts** and looks at **experience elsewhere**
- **Section 4** looks at the potential economic and distributional impacts of the proposal to extend a positive rate of corporate tax to **large retailers**
- **Section 5** looks at the potential economic and distributional impacts of the proposal to extend a positive rate of corporate tax to **additional financial services businesses**

2. Background

The Treasury and Resources Department is considering ways in which a positive rate of corporate tax can be extended to additional businesses - specifically considering the retail and financial services sectors. Corporate tax in Jersey is currently set at 0 per cent, but with the following exceptions:

1. Certain regulated financial services firms are taxed at 10 per cent of their taxable profits.
2. Utilities companies are taxed at 20 per cent of their taxable profits.
3. Property development and rental profits are taxed at 20 per cent.

The Treasury has undertaken a separate exercise to ensure that, despite these proposals to broaden the corporate tax base, the standard rate of corporate income tax will remain 0 per cent.

In relation to the retail sector, the proposal being considered is to introduce a 20 per cent rate of tax on the taxable profits of large retailers. It is proposed that the definition of 'large retailers' would be those with retail sales in excess of £2m in Jersey and with at least 60 per cent of their turnover being from retail. The tax would be levied at 20 per cent on firms whose profits exceed £500k per annum, but where the taxable profits are less than £750k a tapering provision will apply. The effect of the tapering provision for 'large retailers' with taxable profits of between £500k and £750k will be to reduce the *effective rate* of tax to a rate between 0 per cent and 20 per cent. While the Taxes Office has not historically collected information on the profits of non-taxable firms, they have estimated that 18 of the largest retailers by turnover (as determined from GST returns) could be subject to the tax and that just over £5.5m is likely to be collected per year.

The decision to extend a positive corporate rate of tax to large retailers was agreed in principle by the States Assembly as part of the 2017 Budget debate (P.109 Amd.(4)). This follows similar steps to introduce a 10 per cent rate of tax in the Isle of Man in 2013; and a 20 per cent rate in Guernsey in 2016. In relation to financial services, the proposal is for the existing 10 per cent rate of tax to be applied to some groups of firms who are not currently taxed, specifically:

a. General insurance mediation businesses;
b. Companies regulated as registrars
c. Insurance companies
d. Finance companies

The Taxes Office have estimated that this would deliver around £3m additional tax per year.

3. Key concepts and experience elsewhere

3.1. Key concepts - economic impact

The paper is composed of two separate analyses. The first aspect is to look at the economic impact, including the impact on firms, economic output, productivity and the labour market.

Corporate tax, like any other tax, may have unintended consequences as it will change the balance of incentives and therefore result in changes in behaviours. The economic impact will depend on what incentives the tax creates and how firms are able to respond, for example:

Impact on firms: While both taxes will be imposed directly onto individual firms, this may not necessarily result in an equal reduction to their post-tax profit as they could take steps to either avoid the tax or pass some of the cost to customers/suppliers/employees or through cutting other costs. This is known as the *incidence* of the tax (i.e. on whom does the burden ultimately fall).

Prices: Where the firm is able to pass the cost of the tax on to customers, this will take the form of an increase in prices for the goods and services sold by that firm. The ability to pass the cost on will depend on a number of factors, including the price elasticity of demand for the good (i.e. the extent to which price impacts on demand) and the position of the firm's competitors. For example, if demand is highly price elastic and the firm's competitors will not be facing the tax then it will be much more difficult to increase prices without losing market share.

Labour market: If firms are unable to pass the tax on in prices or through reducing other costs, they may choose to reduce hours, wages or employment levels – or employment may fall if some firms exit the market.

Economic output: This is the impact on gross value added (GVA), (i.e. the total value of all economic activity undertaken in Jersey). If the tax results in individual firms contracting without other firms in Jersey expanding to take this market share, then there will be a fall in economic output. However, the contracting firms will free up some resources which are then available for other activities which may result in GVA.

Productivity: Labour productivity in Jersey is measured by GVA per full-time equivalent employee (FTE). If behaviour of firms changes, or if there is an impact on economic output or the use of labour, the tax is likely to have some impact on productivity.

3.2. Key concepts - distributional impact

The distributional analysis undertaken in this report focuses on which households end up ultimately

benefiting or losing from the proposed tax changes. At a high level, it considers whether the incidence of the tax is on customers, on suppliers, on employees or on shareholders. At a more detailed level it looks at what the cost of the tax is likely to be on those at different points of the income distribution.

The distribution of household income is calculated in the Jersey income distribution survey. It divides households in Jersey into five equal sized groups ('quintiles') according to their income level – the first quintile being the 20 per cent of households with the lowest incomes, the second quintile being the next 20 per cent of households and so on, up to the fifth, or top, quintile being the 20 per cent of households with the highest incomes.

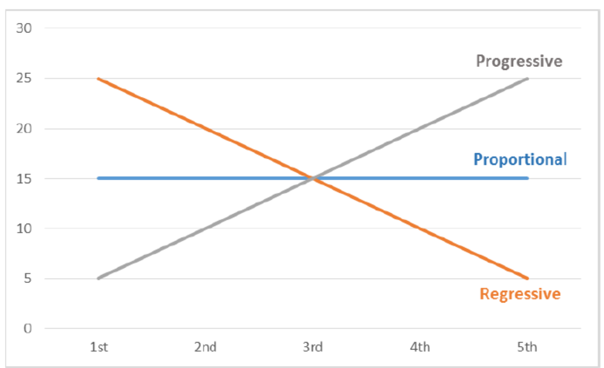
To get an understanding of how various fiscal measures impact on different parts of the income distribution it is possible to look at whether measures are:

Regressive: The average cost to the household falls as a share of income as income rises. This means that those with the lowest incomes pay more relative to their incomes (even though they may pay less in monetary terms).

Proportional: The average cost to the household is constant as a share of income as income rises. This could still mean that the lowest incomes pay less in cash terms, but it is the same proportion of their income.

Progressive: The average cost to the household increases as a share of income as income rises. This will mean that the better off pay more in monetary terms and as a share of income.
This is summarised in **Figure 73**.

FIGURE 73 – The cost impact as a proportion of income of progressive, proportional and regressive measures by income quintile



The distribution of income is not necessarily indicative of the distribution of wealth, and households may be at different levels of income at different points of their life – e.g. a retired household may have considerable savings but a low income in an individual year; whereas a young household at the beginning of their career may have relatively low income but also limited savings. Both example households may well have much higher incomes at different points in their lives.

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The analysis does not consider how people at different points of the income distribution might change their behaviour to enhance their welfare in response to the changes. For example, those on lower incomes may have limited opportunity to reduce other areas of consumption without a significant impact on their overall welfare.

3.3. Experience elsewhere

This section looks specifically at the experience of other jurisdictions of a tax on large retailers.

Isle of Man

The Isle of Man applies a 10 per cent rate of tax to the profits of retailers with profits exceeding £500k. This raises approximately £2.5m per annum. No increase in prices has been observed as a result of the tax, which was introduced in 2013.

Northern Ireland

Northern Ireland launched a three year scheme in 2012 which saw an increase in rates on the largest and highest-value retail sites, which was designed to pay for a temporary reduction in rates for smaller businesses. The increase in rates was expected to affect around eighty properties and equate to around 0.19 per cent of store turnover.

The scheme finished in 2015 and did not result in any retailers closing operations in response to the increase (with any retail sites that did close doing so as part of UK-wide closures). No increases in price were observed as a result of the scheme, as prices continued to be set at a UK level.

Scotland

The Scottish government introduced the 'Public Health Supplement' in 2012. This was levied on retail premises in Scotland selling both alcohol and tobacco that had a rateable value of over £300,000. The aim was to address the health and social problems associated with alcohol and tobacco use while generating income for preventative spending. A report by CEBR, commissioned by Asda, estimated that the levy would result in a reduction in store profitability of around 10 per cent.

The scheme was discontinued in 2015. £95.9m was raised by the levy over three years.

Guernsey

In 2016 the Guernsey government introduced a 20 per cent tax on retailers with profits above £500k. This scheme raises around £1.5m per annum and impacts on around twelve businesses across a range of retail subsectors, with most of the businesses concentrated in the food/drink, garage and clothing sectors.

There is no information to suggest the cost is being reflected in retail prices or staff numbers/wages at this stage. While inflation has accelerated from mid-2016, this is generally understood to be the result of the depreciation in sterling following the UK referendum vote to leave the European Union.

4. Impact of proposed tax on large retailers

4.1. Economic impacts

The proposed tax on large retailers is likely to have two impacts in the first instance:

1. Create an incentive to avoid the tax.

Firms may change behaviour or reorganise their business in an attempt to reduce the burden of the tax. The ability of firms to move profits to other activities (say from retail to wholesale) will depend on both the way the business is set up and the way in which the new tax is administered. However, there may also be an incentive to move profits out of Jersey or reduce turnover/profits in order to come under the threshold, particularly for companies marginally above the threshold.

The Taxes Office is developing some mechanisms to mitigate the risk of firms taking steps to avoid the tax. If any firms do avoid the tax then this may potentially result in some distortions, so these mechanisms will be key.

2. Add an additional cost for large retailers, which in turn will impact on either prices, profits or efforts to reduce other costs.

Retailers will generally try to pass on the additional tax in prices, but companies in highly competitive markets (particularly where they compete with off-island/online retailers or smaller on-island retailers who will not face the increased tax[16]) may find it difficult to increase prices without an impact on their market share. This may result in reductions in other costs (potentially including reducing hours, lower wage increases or reducing staffing levels). Where some or all of the tax cannot be passed on in prices or offset with reductions in other costs, it may result in a reduction in profits.

The rest of this section considers the impact on prices, costs, total economic output (gross value added) and productivity.

Impact on prices

It is difficult to accurately quantify the likely firm response. While firms are likely to want to pass on the increased cost through prices, their ability to do so in this circumstance may be limited for the following four reasons:

1. The retailers subject to the tax will often be competing against smaller retailers and against off-island retailers (for example online retailers), neither of which will face the increased taxes. Therefore any increase in prices would be likely to result in a loss of market share.

2. Some of the retailers affected are likely to be branches of large UK corporate retailers. These firms will often have national pricing structures. This makes it less likely that prices can be increased in a simple or cost-free way and it may be harder to justify any increases above UK levels to customers – given that corporate tax is already levied on this sector in the UK.

3. Locally-owned large retailers will have less incentive to increase prices as local shareholders will be able to offset the corporate tax against any personal tax they would otherwise have paid on the distribution/dividend of those profits. This is in the form of a credit, equal to the amount of corporate tax paid, so the net position for local shareholders will be unchanged in respect of their total personal income after tax. Further, this may mean that non-locally-owned large retailers find it more difficult to increase prices if they are competing with locally-owned large retailers in addition to smaller retailers and off-island retailers as per point 1.

4. Profits are generally a small part of the price of retail goods. In Jersey, gross operating surplus (a measure of profit used in national accounts) is thought to be around 6-7 per cent of total turnover for the wholesale and retail sector. Therefore even if fully passed on in prices, a 20 per cent tax on profits would add only around 1-2 per cent to the cost of goods sold by the retailers affected.

[16] Locally-owned smaller retailers pay corporate tax at 0% but then the local shareholder will pay personal income tax on the amount distributed.

As a result of these factors, there are likely to be limited increases in prices at the retailers affected. However, this will depend on the specific circumstances of the retail subsectors affected. For example, if a specific sector was dominated by large UK-owned retailers with limited off-island competition and was selling products for which profit represented a large proportion of cost then there might be more of a price increase expected as the four points above may not necessarily hold for all retail subsectors. It is not clear that any of the retail subsectors affected meet all these conditions, but some sectors may meet some of the conditions.

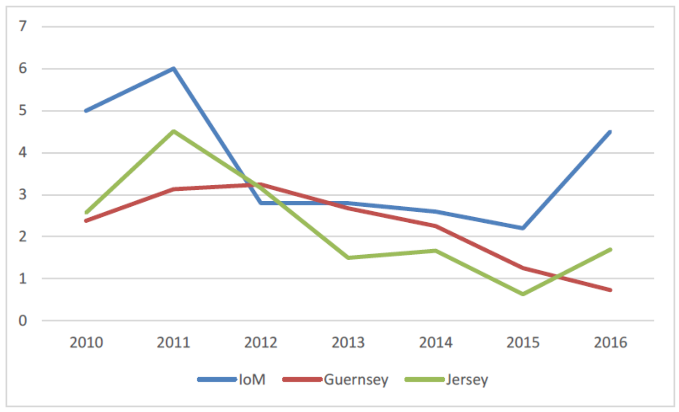
If there is an increase in prices, this will impact on the general rate of inflation in Jersey (as measured by changes in the Retail Prices Index - RPI). The companies affected make up around 50 per cent of sales by GST-registered businesses, and the subsectors involved impact less than half of the RPI calculation (the combined weighting of food, tobacco, household goods, clothing, motoring, and leisure goods). Therefore even if the tax resulted in a 1 per cent increase in prices in the retailers affected, this would likely translate into less than a ½ per cent increase in the overall price level. However, the actual impact may be much lower as affected retailers will have limited ability to pass on as much as a 1 per cent increase in prices, due to the reasons above.

Any increase in the price level is likely to be a one-off increase unless it leads to higher wage demands. The potential small scale of any change in the overall price level may make this less likely.

There is limited evidence of any significant price impact in other jurisdictions. Discussions with Northern Ireland indicate that there was no evidence that retailers deviated from prices set at a UK-wide level, however this risk may have been partially mitigated by the temporary nature of the scheme there (which was a three year increase in rates for large individual premises, rather than Corporation Tax). Similarly, no increase in prices was attributed to the introduction of a retail tax in Guernsey or the Isle of Man.

Inflation tends to follow broadly similar trends in Guernsey, Jersey and the Isle of Man; but can differ somewhat in individual years. No clear upward trend can be seen in **Figure 74** for the year in which the retail tax was introduced in either the Isle of Man (2013) or Guernsey (2016). It is, however, difficult to draw any conclusions from this data as there are different trends which might be impacting on inflation at different times in each of the Crown Dependencies, and there will be methodological differences in the way RPI is calculated – including differences in the 'basket' of goods and services for which prices are measured.

Figure 74 - RPI inflation in the Crown Dependencies (annual average % change in the RPI)



Source: Jersey Statistics Unit, Isle of Man Cabinet Office, States of Guernsey Data and Analysis

Impact on other costs

Given the potential costs involved in increasing prices, and the potential to lose market share, firms may look for other ways to reduce costs to maintain profit margins. There may not be significant potential to reduce wages or give lower increases, given that this may make it difficult to recruit in a competitive labour market. So the response could be to focus on reducing staff costs in other ways, either by reducing numbers of staff or by reducing hours worked. This will be difficult for efficient firms (that have little scope to improve productivity) to do without a resulting reduction in activity (and therefore turnover and profits) and therefore will not be consistent with maintaining profit levels.

An alternative might be to reduce labour costs through more automation. A recent report by PwC[17] estimated that the wholesale and retail sector in the UK is one of the sectors most at risk from job losses through automation in the next 10-15 years, so any increase in corporate taxes may cause firms to accelerate their efforts to automate if there are cost-saving benefits. However, the increase in corporate taxes does not affect the relative price of labour versus capital so it is not clear that it would significantly change the incentives to invest or the pace of automation.

Firms may also choose to consolidate their operations in an attempt to reduce cost to maintain profit levels. Though again the potential to do so might be limited – given that it would be in the firm's interests to have done this even in the absence of the proposed new tax.

Impact on firms / economic output

If firms are unable to pass the tax on in prices or by reducing other costs, they may need to absorb the tax increase through reduced profits. At the margin, this may affect investment decisions – but given the size of the tax as a percentage of the overall cost base it is unlikely to be the sole reason for firms closing down or relocating. For a firm with a 7 per cent profit margin (average for the sector), the tax would make up a maximum of 1½ per cent of total costs.

[17] PwC (2017) Will Robots Steal Our Jobs? http://www.pwc.co.uk/economic-services/ukeo/pwcukeo-section-4-automation-march-2017-v2.pdf

No tax will be collected on firms with taxable profits below £500k so any firm paying the tax will still be profitable, even after paying the tax, meaning that the tax itself will not make any existing operation untenable. A similar scheme in Northern Ireland (based on increasing rates for large retailers, rather than corporate tax which is based on profits) is not thought to have led to any store closures over and above those which were already planned, as part of UK-wide restructuring – though this risk have been partly mitigated in this case by the temporary nature of the increase.

While the scope to shut down operations may be limited – the tax could however give some incentives to firms to reduce their operations (or reduce margins) in order to reduce their profits or turnover below the threshold. This is particularly likely for those firms who are very close to the threshold. However, it is understood that none of the retailers identified have a turnover below £2.5m, so these firms may have limited opportunity/incentive to avoid the tax plus as the tax would only levied at the full 20 per cent rate on profits above £750k then this risk is further mitigated.

In the absence of information on how firms are likely to respond, it is not possible to estimate the overall impact on economic output (gross value added - GVA) or productivity. The wholesale and retail sector makes up around 7 per cent of the economy (£288m of GVA in 2015). However, given that only a proportion of the retail part of the sector is affected (and none of the primarily wholesale firms in the sector), there is not likely to be a significant impact on an economy-wide basis.

If there is some reduction in market share by large retailers who decide to scale back activity/employment, this will often be picked up by smaller retailers who are unaffected by the tax. This may have marginal impacts on productivity at the sector/economy-wide level but there is insufficient data to indicate whether the impact would be positive or negative. Evidence from the UK shows that in the broader *'services: distribution, hotels and restaurants'* sector, medium-sized businesses (50-249 employees) are the most productive, with micro-businesses (1 to 9 employees) being least productive:

Figure 75 – Output per worker in UK Distribution, Hotels and Restaurants Sector, average 2008-2014

Business size	Labour productivity (£)
Micro (1-9 employees)	25,700
Small (10-49 employees)	29,600
Medium (50-249 employees)	38,100
Large (250+ employees)	28,700

Source: UK Office of National Statistics
https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/adhocs/005325additionalanalysisofthedistributionofproductivitybyfirmsizeandindustry

If similar trends exist in Jersey, therefore, there may be a reduction in productivity if micro firms were to increase their market share and their level of employment, at the expense of small or medium firms. The majority of larger corporate retailers appear to be headquartered in the UK. Whether the tax on large corporate retailer is an absolute cost for these businesses will depend on the UK tax position of the direct parent company. The tax analysis applicable in the UK is complex and uncertain, as it depends on factors such as the size of the relevant UK company/group and whether it has made certain elections.

Normally the profits of Jersey permanent establishments of UK companies are taxable in the UK, with double tax relief available in the UK for any Jersey tax suffered to prevent the double taxation of profits. In this situation any additional Jersey tax payable as consequence of the proposed measure should not be a material overall cost to the business.

However UK tax law allows UK tax resident companies to elect for the profits of their non-UK permanent establishments to be exempt from corporation tax. This election is not available to all UK companies and some companies may simply choose not to make the election. To the extent that the profits of a Jersey permanent establishment are the subject of such an exemption election in the UK, any additional Jersey tax payable would be an additional absolute cost to the business.

Distributions paid from Jersey subsidiaries to their parent company in the UK will be exempt from UK corporation tax. This exemption does not apply in all cases and companies can elect for the exemption not to apply. To the extent that distributions from Jersey subsidiaries are exempt from tax in the UK, any additional Jersey tax payable would be an additional absolute cost to the business.

To the extent that the distribution from Jersey subsidiaries is taxable in the UK, the UK should give unilateral tax relief for the underlying corporate income tax paid by the subsidiary in Jersey. In this situation any additional Jersey tax payable should not be a material overall cost to the business.

For a Jersey-resident individual who owns shares in a large retailer which is subjected to tax, the effect will largely be an acceleration of tax (i.e. the tax will be collected from the company's profits but this will be given as a credit when calculating the individual's personal tax liability) such that the distribution is not also taxed. This could however impact on cash flow within businesses, e.g. where shareholders are not distributing profits as they are being retained within the business to fund growth. In this case, the company may not be able to invest as much in growth, unless external funding could be raised. This may have some economic impacts, though of course shareholders will have an incentive to invest additional cash to maintain cash flow and fund growth.

a. Distributional impact

This section looks at which groups of society are anticipated to pay for the proposed change. In the case of the tax on large retailers, it is possible to estimate which companies will likely pay in the first instance, but who ultimately ends up paying for the change will depend on how firms react to the increased tax. Based on analysis by the Taxes Office, the retailers likely to be subject to the tax will be in eight broad subsectors of retail:

Figure 76 - Retail subsectors likely to be affected

Motor vehicles, parts and accessories	Hardware, paints and glass
Flowers, plants, seeds, fertiliser and pet	Cosmetic and toilet articles
Food, beverages or tobacco	Jewellery
Clothing	Computers, peripheral units and software

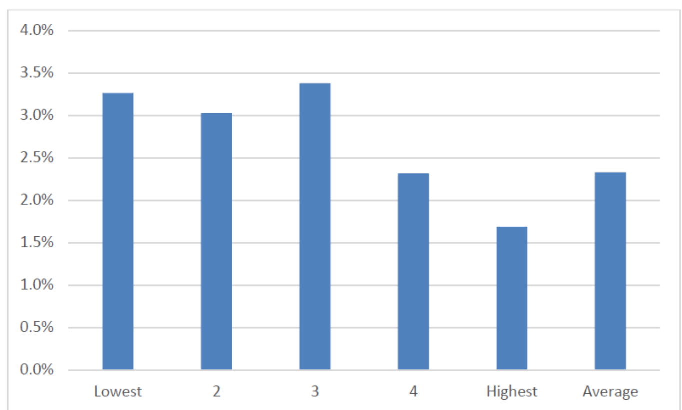
Source: Taxes Office

However, as outlined in section 4.1, firms will change their behaviour to respond to the tax. Depending on the response, this will cause the cost to ultimately fall to different groups of individuals.
If the firm decides to cut employment costs and reduce activity, this will have different distributional impacts depending on who the employees are and whether the same or different individuals are able to move into smaller retailers who may expand to take on some market share freed up by the larger retailers.

If the increased tax results in reductions in profits, this will then be passed on to shareholders either through reduced dividends or through a reduction in the value of the company. The impact of this will depend on who the shareholders are. A number of the retailers affected are headquartered in the UK, and are unlikely to have a significant proportion of their shareholders resident in Jersey.

To the extent that the increased taxes are passed on through prices, the impact will be on customers – though this will hit different groups of customers to different extents. Using the results from the Income and Expenditure Survey, it is possible to break down expenditure by different parts of the income distribution into categories. So for example, if clothing retailers (who are anticipated to pay around 12 per cent of the tax) were to increase prices; this would disproportionately affect those with low to medium income as the bottom three quintiles spend around 3.0-3.5 per cent of their income on clothing and footwear whereas the highest quintile spends less than 2 per cent. This is illustrated in **Figure 77.**

Figure 77 - Proportion of income spent on Clothing and Footwear, by income quintile



Source: Jersey Statistics Unit

For the purpose of this report, some assumptions have been made about what categories of expenditure (from the household spending survey) might be impacted by price increases in each of the retail subsectors expected to be subject to the tax. It is likely that there will be some other categories of expenditure which are spent in the sectors identified but for the purpose of illustration, the most likely categories have been chosen:

Figure 78 - AVERAGE household weekly spend on affected retail sub-sectors

Sub-sector	Expenditure category	Weekly spend (£)
Motor vehicles, parts and accessories	Purchase of vehicles[18]	33.20
Flowers, plants, seeds, fertiliser and pet	Tools & equipment for house & garden	3.10
	Horticultural goods[19]	3.20
Food, beverages or tobacco	Food & non-alcoholic drinks	85.80
	Alcoholic drinks and tobacco	15.8
Clothing	Clothing & footwear	24.50
Hardware, paints and glass	Household goods & hardware	2.00
	Materials for maintenance & repair of dwelling	1.50
Cosmetic and toilet articles	Pharmacy & other medical products	6.50
	Toiletries	4.10
	Hair product, cosmetics, related electrical appliances	6.30
Computers, peripheral units and software	Computers	4.10
Jewellery	Personal effects n.e.c.	4.30
Total		**194.40**

Using these assumptions, the average household in Jersey spends £194.40 per week on items within those categories (both online and in local stores), or approximately £10,000 per year. This represents approximately 18 per cent of the annual average equivalised income.

However, the amount spent varies widely across the income distribution, with the lowest quintile (i.e. those with incomes in the bottom 20 per cent) spending around £120/week and those in the highest quintile (with incomes in the top 20 per cent) spending around £323/week on those categories.

Figure 79 - amount spent on affected sub-sectors by income quintile

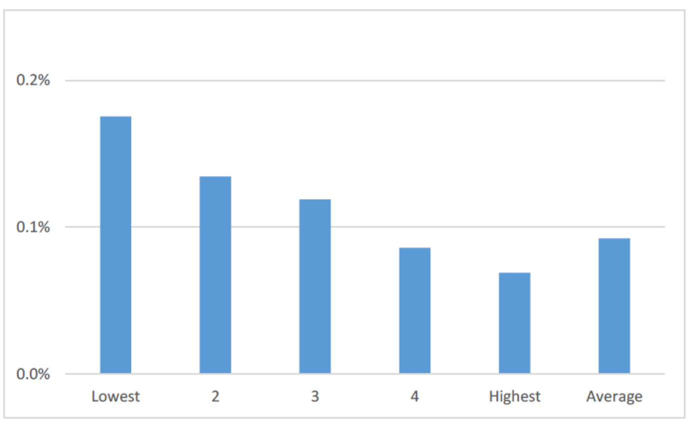
Income quintile	1 (lowest)	2	3	4	5 (highest)	Average
Average weekly spend (£)	120	154	195	203	323	**194**
Average annual income (£)	17,850	29,750	42,800	61,350	122,100	**54,770**
Spend as % of income	35%	27%	24%	17%	14%	**18%**

However, as set out in section 4.1, the impact on prices is likely to be very small. If prices as a whole were to rise by ½ per cent for the sectors identified then this would increase the weekly costs by £0.97 on average – ranging from around £0.60 for the lowest quintile to £1.62 for the highest quintile.

[18] It is understood there is some motor fuel sales included in this category, but it is not assumed to be a significantly large proportion of the overall motor fuel market.

[19] Expenditure on 'pets, pet food and vets' has not been included as it is likely that this category of retailer does not represent a significant proportion of the overall market for these goods and services.

Figure 80 - Impact of 0.5% increase in prices in the sectors affected, as a proportion of income, by income quintile



Source: Jersey Statistics Unit

While **Figure 80** indicates that such an increase in prices could be regressive, the amounts involved are relatively small as a proportion of income. However, this is illustrative only – there is no reason to think that prices will rise by a uniform ½ per cent across all the sectors involved. For example, the affected firms may be a relatively large proportion of, for example the car sales sector, which may make the tax more likely to be passed on in increased prices, but a small proportion of, for example the clothing sector which would mean that prices are harder to increase without losing market share. This will also depend on how sensitive demand is to changes in prices of individual products – with prices more likely to rise for products which are relatively price inelastic.

Similarly even within a single firm where price increases are put in place, they may not be equally on all products (or indeed the retailer may only operate within a small niche). For example, a retailer might choose to increase prices on items which are less in competition from the internet, or items for which price is less likely to significantly dampen demand. The specific products purchased will differ across the income distribution so, for example, if luxury high-priced cars are more likely to increase in price than lower-priced cars, this would make the impact of the tax more progressive.

Further, a price increase in computer supplies or car sales is likely to be much more proportional than an increase in food prices – as expenditure on computer supplies or car sales will rise more quickly as income increases than expenditure on food.

3. Impact of proposed extension of tax to additional financial services firms

a. Economic impact

Similarly to the proposed tax on large retailers, financial services firms are likely to try to look to protect their levels of profit either by avoiding the tax, by passing on the costs to customers or by attempting to reduce other costs in their business:

Avoidance

Affected firms may look for ways to change how their activities are classified in order to no longer be included in the subsectors to which the 10% rate is extended. However, there may be limited ability to do so without significantly changing the business itself, given that most of the activities require a licence/registration from the Jersey Financial Services Commission and the possession of this licence/registration will be used as the basis on which to decide whether the company is liable for the tax.

Increasing prices

In order to avoid cutting profit margins, firms will attempt to pass on as much of the cost as they can without losing significant market share. However, this may be difficult for a number of the firms – particularly those which are competing globally or are competing with firms who are not facing any change in their costs.

Analysis by the Taxes Office suggests that there are few of the registrars who supply to local clients, therefore any action by these firms will not impact on prices locally. Where prices are increased, this may affect the competitiveness of these firms internationally.

Similarly the finance companies involved will also be competing with banks, and may need to limit any price increase in order to remain competitive. However, the amount collected from these firms is a large proportion of the overall amount, and should they be able to pass some of this on to their customers, it could impact on affordability of funding available to local households and businesses. It is difficult to predict what impact this might have, but it would not be in the finance providers' interests to increase interest rates to such an extent that businesses no longer choose to raise finance in this way; or households struggled to repay.

One alternative to increasing interest rates charged to borrowers would be to reduce the returns passed on to investors – which may ultimately result in a reduction in the overall amount available for lending. However, either impact will be tempered by the fact that a number of the firms affected are locally-owned, so will only see an 'acceleration' in tax as explained in section 4.1, meaning that they may not have any incentive to increase prices or reduce returns to investors if the post-tax value of distributions is unchanged. If locally-owned firms did not raise prices, it would make it less likely that non-locally-owned firms would be able to increase prices without losing market share.

The insurance companies and insurance mediation businesses identified are thought to all serve local clients but they are subject to off-island competition so may find it hard to increase prices without losing some market share. Further, both sub-sectors are not expected to pay a large amount of tax under the proposals so the impact on overall inflation will not be significant. As with the finance providers, a significant number of the insurance mediation businesses are locally-owned and this may again limit the likelihood of price increases by either the locally-owned firms or their competitors as local shareholders will be able to offset the corporate tax paid to reduce their personal tax bill by the same amount and therefore will be subject to no additional tax on a net basis.

Overall then, it is likely that there will not be significant price increases for Jersey residents as the ability for firms to raise prices will be limited for many of the firms affected; and many of the firms are selling their services primarily off-island.

Cutting costs

If the additional tax cannot be avoided or passed on to customers, firms will look to cut other costs. As with the large retailers, this may include consideration of cutting staff numbers, reducing hours or forgoing wage increases for staff; or cutting other expenditure such as office rental or advertising etc. However, it will be difficult to cut wages in a competitive labour market and it will be difficult for firms to make cuts to staffing numbers or hours while still meeting the needs of customers. The exception may be if there are some productivity improvements/efficiencies to be achieved but firms that have identified potential efficiencies may have implemented them either with or without the increased tax.

Impact on firm/profits

Where firms are unable to protect existing levels of profits through the three approaches above, there may be some impact on profits. This will be passed on to shareholders, either through reductions in dividends or through a reduction in the value of the company. As with the large retailers, for a Jersey-resident individual who owns shares in one of the financial services companies which is brought into the 10 per cent tax, the effect will largely be an acceleration of tax (i.e. the tax will be collected from the company's profits but this will be given as a credit when calculating the individual's personal tax liability) such that the distribution is subject to less tax.

As explained in section 4.1, the position regarding financial services companies that are headquartered in the UK is complicated and the tax position will depend on the circumstances of the business and whether or not its profits or distributions are exempt from UK corporation tax.

If post-tax profits fall due to the tax, this will result in a marginal reduction in the incentive to invest in Jersey. It's not clear to what extent this will result in any relocations or reductions in employment – but as the tax is relatively low by international standards and will only be levied on profitable companies, it is unlikely by itself to lead to such a response. It will form part of firms' usual investment decision process which will consider locations on the basis of not only taxation but also geographical location, regulatory environment, reputation, availability of skills, etc.

As with the larger retailers tax, it is difficult to estimate what the net impact might be on economic output (as measured by GVA) or productivity. The total size of the sub-sectors affected is not significant so there is unlikely to be any significant change on a whole-economy basis. This may differ if, for example, there were significant linkages to other parts of the finance sector or the economy as a whole but there is no evidence this is the case.

b. Distributional impact

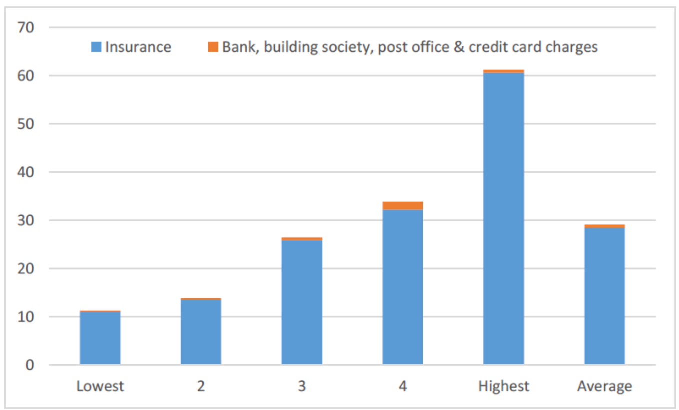
This section identifies which sections of society are likely to end up impacted if the 10% tax rate were extended to additional parts of the financial services sector. It is relatively easy to identify which firms are likely to pay the tax in the first instance, but as explained in section a, affected firms may try to pass this on to customers, or reduce costs or reduce distributions to shareholders, and this response will affect to whom the cost of the tax ultimately falls – i.e. the incidence of the tax.

If the firm decides to cut employment costs this will have different distributional impacts depending on who the employees are, and whether those individuals are able to find alternative employment opportunities to make up for the loss of income.

If the increased tax results in reductions in profits, this will then be passed on to shareholders either through reduced dividends or through a reduction in the value of the company. The impact of this will depend on who the shareholders are. A number of the firms affected are not locally owned and are unlikely to have a significant proportion of their shareholders resident in Jersey.

To the extent that the increased taxes are passed on through prices, the impact will be on customers – though this will hit different groups of customers to different extents.
While it is difficult to get any data on spending on the specific sectors affected, it is likely that a large proportion of this is from off-island customers – with a number of the businesses affected serving only off-island customers. That proportion of sales which are to on-island customers may see some prices increases which will result in additional costs for Jersey residents. However, as noted in section a, it is likely that there will not be significant prices increases as the ability for firms to raise prices will be limited for many of the firms affected.
It is possible from the income and expenditure survey to look at the amounts spent by Jersey households on insurance and on '*bank, building society, post office & credit card charges*'. **Figure 81** demonstrates that expenditure on insurance increases as income increases. Expenditure on bank, building society, post office and credit card charges is low for all quintiles but increases for the first four quintiles before falling again for the top quintile.

Figure 81 - Spending on insurance and on bank, building society, post office and credit card changes; by income quintile (£ per week)

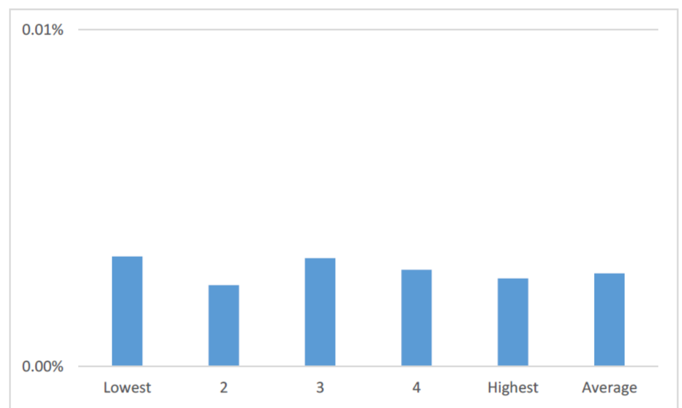


Source: Jersey Statistics Unit

As a proportion of income, however, the impact is more proportional than that seen in retail. The lowest and third quintiles spend the largest proportion of their income on these two categories (**see Figure 82**), but the proportion is relatively similar for all quintiles. The amount spent on these areas is very low – though in terms of the bank, building society, post office and credit card changes this covers only 'charges' and would not generally include interest charged on borrowing or paid on savings. Given the nature of the businesses involved, it is unlikely that a significant proportion of the tax will be passed on in cuts to interest paid to savers.

The businesses affected are only a small part of the finance sector and even if the tax was passed on through prices it would have very limited impact on prices charged to Islanders by the sector as a whole. If the price increase were 0.1 per cent for example, this would result in very little additional cost to any quintile as a proportion of their income.

Figure 82 - Impact of a 0.5% price rise in financial services and insurance, as a % of income by income quintile



While the average impact on each quintile is low, there may be larger impacts on individual households for whom expenditure on the sectors affected is more significant as a proportion of income.

As with retail, price rises may not be uniform across the sectors or across individual products within a sector or individual firm. For example, an insurance mediator may be more able to raise prices across a certain type of insurance (e.g. life insurance) if demand is relatively inelastic to price (i.e. if price rises are less likely to result in a reduction in demand) or if certain insurance sectors are less competitive – for example if certain Jersey-specific products are harder to obtain from off-island providers.

Overall, there is no evidence to suggest that the proposed extension of the 10 per cent rate of tax to additional financial services sector would result in a significant impact on any of the income quintiles as a whole – and any impact that is felt will be largely proportional across the income distribution.

4. Conclusion

The impact of both proposed extensions of corporate tax will depend on how firms are able to respond to the tax – specifically if they are able to pass the cost on to customers, suppliers or employees or whether shareholders are forced to absorb the cost through reduced dividends or a reduction in company valuation.

In both cases, there is little evidence to suggest that the tax will result in a significant increase in the overall price level (as measured by RPI), for a number of reasons:

1. A number of companies in both sectors are locally-owned and therefore the shareholders will receive a credit, reducing their personal tax bill by the amount of the tax. Therefore there will be no impact on the post-tax income of local shareholders.

2. Those firms which are not locally-owned may have limited opportunity to increase prices due to competing with firms who do not face an increase in tax – either because they sell in export markets / compete with off-island businesses or because they compete with firms who won't face increased taxes (e.g. smaller retailers).

3. The tax proposals affect a small number of firms in limited subsectors of the economy – small price rises in these subsectors will not add significant inflationary pressure on an economy-wide basis.

There may also be limited opportunity for firms to cut other costs in response to the tax, without reducing activity and losing market share. This means that some of the cost is likely to be passed on to shareholders through reduced dividends or a reduction in the value of the company. This will not represent a net loss for local shareholders or for shareholders of firms who currently pay UK Corporation Tax on their Jersey profits.

If the loss to shareholders is significant, it may affect investment decisions. Firms may choose to invest elsewhere if post-tax profits are more attractive. However, the proposed tax rates are low by international standards and will represent only one of a number of factors including geographical location, customer base, regulatory environment, reputation, availability of skills, etc.

Where prices are passed on in the retail sector, these will be mildly regressive (i.e. those on lower incomes will pay a larger amount as a proportion of their income). Where prices are passed on in the financial services firms affected, this is likely to be more proportional – with those on higher incomes paying a similar amount of their income towards the tax.

However, any decision to increase taxes must take account of the counterfactual. If additional revenue is not raised through corporate tax, it must be raised through personal taxes, through charges or through cuts in expenditure. Each of these will have an impact on the economy and will each have differing distributional impacts. For example if the next best alternative choice were to cut expenditure equally across all departments this may have a strongly regressive impact as those on lower incomes tend to use a higher value of public services as a proportion of their income than those on higher incomes.

APPENDIX 2

STATES OF JERSEY

DRAFT BUDGET STATEMENT 2018 (P.90/2017): FOURTH AMENDMENT (P.90/2017 Amd.(4)) – COMMENTS

Presented to the States on 27th November 2017
by the Council of Ministers

STATES GREFFE

2017 P.90 Amd.(4)Com.

COMMENTS

With the support of the Council of Ministers, the Minister for Treasury and Resources has lodged an amendment to this amendment proposing changes to the parts of the amendment relating to the duty-free tobacco allowance, the taxation of Class 1 bookmakers and the taxation of large liquor vendors. The comments supporting those proposed changes are included in the amendment to the amendment and are not reproduced here.

The Council of Ministers opposes parts (iv) and (v) of Senator P.F.C. Ozouf's amendment (P.90/2017 Amd.(4)) and relevant comments are provided below. The Council of Ministers encourages States Members to support the amendment of the Minister for Treasury and Resources which seeks to delete these parts of the underlying amendment.

Stamp duty changes on properties worth in excess of £10 million for newly-arrived HVRs

Senator Ozouf's amendment is specifically directed at the population of High Value Residents ("HVRs") who will arrive after the Budget debate and purchase property worth in excess of £10 million. It will create a separate stamp duty rate for this specific population, disadvantaging them compared to the non-HVR population and, more importantly, compared to those HVRs who have already arrived in the Island.

The Council of Ministers welcomes the opportunity to reiterate its commitment to the policy of encouraging HVRs to move to the Island. HVRs make a significant contribution to the Island, not just in terms of their direct tax contribution, but on a much broader basis such as charitable donations, business mentoring and sponsorship of sports teams.

The following paragraph is taken from the Withers LLP and Panopticon Policy review of 1(1)(k) regime undertaken in 2010[2], highlighting the economic benefit enjoyed by the Island through the HVR policy (original emphasis):

> "**The economic effects of 1(1)(k)s are large**. We have derived estimates from the income tax payments made by 1(1)(k)s in 2009 that **their economic impact is at a minimum of £50–70 million**, however, this estimate is both extremely conservative and subject to many uncertainties."

However, this Council of Ministers is alive to the need to ensure that HVRs are making an appropriate direct tax contribution, and the 2018 Budget proposes material changes to the tax regime applying to future HVRs (i.e. those granted 2(1)(e) status on or after 1st January 2018), which will result in them making an even greater direct financial contribution to the Island. These proposals implement recommendations that were identified in the review of the HVR tax regime published in December 2016[3].

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[2] See: https://www.gov.je/sitecollectiondocuments/tax%20and%20your%20money/r%20review%20of%201(1)(k)%20regime%20for%20the%20states%20of%20jersey%2020111011.pdf

[3] Post-Implementation Review of Jersey's High Value Residents Regime Applicable since July 2011 – A Report by the Tax Policy Unit for the Council of Ministers and the States Assembly (see: http://www.statesassembly.gov.je/assemblyreports/2016/r.130-2016.pdf)

The 2018 Budget proposals are to –

- increase the expected annual minimum income tax contribution to £145,000;
- ensure that income tax of £145,000 per annum is paid (through the introduction of a top-up mechanism); and
- periodically revalorise the £145,000 by not more than inflation.

These measures will both enhance and secure the direct tax contribution made by future HVRs. These measures represent significant changes to the regime, and were recommended after careful consideration of the "Jersey package" against that being offered in competing jurisdictions. There are other jurisdictions where the annual tax contribution expected from HVRs is much less than that expected in Jersey, but the "Jersey package" that is sold by Locate Jersey is broader than just the income tax proposition.

It must also be recognised that, from 1st January 2017, this Council of Ministers has already required those buying property at the higher end of the housing market to contribute more in stamp duty. The 2017 Budget included stamp duty increases on property worth in excess of £3 million, with an increased rate of stamp duty (8%) on consideration in excess of £3 million, and a new top rate of stamp duty (9%) on any consideration in excess of £6 million.

Following these changes, the stamp duty payable on the purchase of a £10 million property is currently £727,000, an increase of £110,000 over the amount of stamp duty that would have been payable on such a property purchase in 2016.

The Council of Ministers considers that the changes proposed to the taxation of HVRs in Budget 2018, and the changes to stamp duty already made strike the right balance between welcoming future HVRs to the Island and asking them to make an appropriate contribution. Increasing the stamp duty rate on a size of transaction that, based on historical trends, may only occur once a year, risks damaging that balance for very little additional revenue.

Tax rate applied to large corporate retailers

In the 2017 Budget, Senator S.C. Ferguson lodged an amendment seeking the introduction of a large corporate retailers tax that mirrored the equivalent tax introduced in Guernsey in 2016. Following the adoption of an amendment to prevent the Minister for Treasury and Resources being required to simply copy the Guernsey legislation directly into Jersey's Income Tax Law, the amendment was overwhelming supported by the Assembly; with a number of Members welcoming the fact that steps were now being taken to require non-locally owned companies trading in the Island to make a direct contribution to income tax revenues.

The only conditionality associated with the amendment was that it should not be introduced if to do so would pose a risk to the zero-ten regime. During 2017, the Treasury reviewed whether making the change would pose a risk to the zero-ten regime. The Treasury's findings were that it was considered safe to extend a positive rate of tax to large corporate retailers in the manner proposed, as the proposal will not have a material impact on either –

(a) the amount of profits taxable at 0% vs profits taxable at a positive tax rate; or

(b) the number of companies taxable at 0% vs the number of companies taxable at a positive tax rate.

Correspondingly, the Minister for Treasury and Resources was obliged to bring forward appropriate legislation to the States Assembly for consideration in the 2018 Budget.

Senator Ozouf's amendment does not seek to strike out the large corporate retailers tax completely, rather it seeks to reduce the applicable tax rate on profits in excess of £750,000 from 20% to 10% – effectively halving the estimated revenue that the States will receive from the tax. There appear to be 3 reasons supporting Senator Ozouf's position: (a) impact on prices; (b) economic impact; and (c) the existence of the 10% tax rate applied to financial services companies.

Impact on prices

Although not required by the States' decision, in developing the legislative proposals, the Council of Ministers requested that the Economics Unit produce both an economic and distributional impact analysis to inform their considerations. This analysis has been published in full as Appendix 11 to the Draft Budget Statement 2018. In completing their analysis, the Economics Unit also considered the experience of the Isle of Man, Northern Ireland, Scotland and Guernsey from the introduction of taxes that apply to large retailers.

For the benefit of States Members, the section of the analysis relating to the likely impact on prices from the introduction of the large corporate retailers tax has been reproduced in the **Appendix A** to these comments. The conclusions reached on the likely impact on prices in the Island are summarised in the analysis as follows –

"The impact on prices could be limited for a number of reasons:

- The retailers subject to the tax will often be competing against smaller retailers and against off-island retailers, neither of whom will face the tax.
- Some of the retailers affected are likely to be branches of large UK corporate retailers with national pricing structures.
- Locally-owned large retailers will have less incentive to increase prices as local shareholders will be able to offset the corporate tax against any personal tax they would otherwise have paid on the distribution/dividend of those profits.
- Profits are generally a small part of the price of retail goods."

After reviewing the experience in the other jurisdictions noted above, the analysis states –

"There is limited evidence of any significant price impact in other jurisdictions. Discussions with Northern Ireland indicate that there was no evidence that retailers deviated from prices set at a UK-wide level, however this risk may have been partially mitigated by the temporary nature of the scheme there (which was a three year increase in rates for large individual premises, rather

than Corporation Tax). Similarly, no increase in prices was attributed to the introduction of a retail tax in Guernsey or the Isle of Man."

Having taken this analysis into account, the Council of Ministers was content that the likely increase in prices from the introduction of the large corporate retailers tax at 20% was limited.

In Senator Ozouf's report accompanying his amendment he notes that: "The research that I have undertaken that the prices of goods sold by the companies affected if the 20% rate would be adopted would be in the region of 3%. That is equivalent to an additional 3% GST for those customers who would continue to shop at those establishments.".

That statement is inconsistent with the findings outlined in the Economics Unit's analysis, which states –

> "In 2016 the Guernsey government introduced a 20 per cent tax on retailers with profits above £500k. This scheme raises around £1.5m per annum and impacts on around twelve businesses across a range of retail subsectors, with most of the businesses concentrated in the food/drink, garage and clothing sectors.
>
> There is no information to suggest the cost is being reflected in retail prices or staff numbers/wages at this stage. While inflation has accelerated from mid-2016, this is generally understood to be the result of the depreciation in sterling following the UK referendum vote to leave the European Union."

In considering the impact of Guernsey's large corporate retailers tax on prices in Guernsey, States Members will need to consider whether to rely on the analysis prepared by the Economics Unit or Senator Ozouf's research.

Furthermore, although the Economics Unit's analysis cautions against placing excessive reliance on comparing inflation rates between jurisdictions, it is worthwhile highlighting some key inflation statistics reported in Jersey and Guernsey since the introduction of the large corporate retail tax in Guernsey in 2016. The reports prepared by the respective Statistics Units show the following inflation rates overall and in key retail sectors for the year ended 31st December 2016 –

	Jersey – annual % change[4]			**Guernsey – annual % change[5]**		
	RPIX	Food	Clothing and footwear	RPIX	Food	Clothing and footwear
Dec. 2016	1.9	-1.2	1.8	1.6	-2.5	-2.5

[4] See: https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20RPI%20Dec%202016%2020170120%20SU.pdf

[5] See: https://www.gov.gg/CHttpHandler.ashx?id=105604&p=0

With *lower* inflation rates in Guernsey across RPIX, the food sector and the clothing and footwear sector, this data indicates no support for the contention that the introduction of large corporate retailers will result in price increases of around 3%.

Economic impact

Senator Ozouf's accompanying report states (original emphasis): "Continued investment in retail is absolutely vital. To impose a tax at 20% will restrict the ability of major retailers to invest. In fact, the 20% may result not only in **higher prices** but investment in retail **falling**.".

The Economics Unit's analysis of the impact on firms/economic output has been reproduced in **Appendix B** to these comments for the benefit of States Members. However the analysis is summarised as follows –

> "If firms are unable to pass the tax on in prices or by reducing other costs, they may need to absorb the tax increase through reduced profits. At the margin, this may affect investment decisions – but given the size of the tax as a percentage of the overall cost base it is unlikely in itself to lead to firms downsizing, closing down or relocating."

In the body of the analysis it is noted that this may lead to some opportunities for smaller businesses because: "if there is some reduction in market share by large retailers who decide to scale back activity/employment, this will often be picked up by smaller retailers who are unaffected by the tax."

Availability of the 10% tax rate

On the move to zero/ten it was identified that requiring financial services companies, which predominantly provide services to customers located outside the Island, and which operate highly mobile business models, to pay tax at 20% would make Jersey uncompetitive in this sector and might result in key businesses/employers relocating outside the Island. Having undertaken appropriate competitive analysis, it was determined that applying a 10% corporate income tax rate specifically to financial services companies struck the balance between delivering the sector an internationally competitive tax rate and the need to raise revenue from the sector.

The conclusions reached in the context of financial services companies do not automatically apply in the context of large corporate retailers who are based in the Island and predominantly sell to local consumers. These businesses are not highly mobile – it is not straightforward for them to move their businesses wholly outside of Jersey and continue to sell goods to consumers in Jersey. Large corporate retailers arguably have more in common with utility companies/companies supplying hydrocarbon oils which are currently subject to the 20% tax rate.

Furthermore the Council of Ministers notes that in respect of any locally owned companies subject to the large corporate retailers tax, the proposals represent simply an acceleration of the personal income tax that would be paid by the local shareholder(s) when they receive a distribution of the profits (i.e. the proposals do not result in any additional tax being paid, just an acceleration of the time at which that tax would be paid). This is because the local shareholder(s) will be entitled to a credit for the tax paid by the company when calculating their personal tax liability. The proposals effectively

return large corporate retailers to the tax position that applied before the introduction of zero/ten.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]

These comments were submitted to the States Greffe later than the noon deadline on Thursday 23rd November, specified in Standing Order 37A, as final internal review processes had not been completed in the time available from the lodging of all the amendments to the 2018 Budget.

APPENDIX A
(to P.90/2017 Amd.(4).Com.)

IMPACT ON PRICES: EXTRACT FROM:
"APPENDIX 11 – ECONOMIC AND DISTRIBUTIONAL ANALYSIS OF THE PROPOSED EXTENSION OF CORPORATE TAX"

Impact on prices

It is difficult to accurately quantify the likely firm response. While firms are likely to want to pass on the increased cost through prices, their ability to do so in this circumstance may be limited for the following four reasons:

1. The retailers subject to the tax will often be competing against smaller retailers and against off-island retailers (for example online retailers), neither of which will face the increased taxes. Therefore any increase in prices would be likely to result in a loss of market share.

2. Some of the retailers affected are likely to be branches of large UK corporate retailers. These firms will often have national pricing structures. This makes it less likely that prices can be increased in a simple or cost-free way and it may be harder to justify any increases above UK levels to customers – given that corporate tax is already levied on this sector in the UK.

3. Locally-owned large retailers will have less incentive to increase prices as local shareholders will be able to offset the corporate tax against any personal tax they would otherwise have paid on the distribution/dividend of those profits. This is in the form of a credit, equal to the amount of corporate tax paid, so the net position for local shareholders will be unchanged in respect of their total personal income after tax. Further, this may mean that non-locally-owned large retailers find it more difficult to increase prices if they are competing with locally-owned large retailers in addition to smaller retailers and off-island retailers as per point 1.

4. Profits are generally a small part of the price of retail goods. In Jersey, gross operating surplus (a measure of profit used in national accounts) is thought to be around 6-7 per cent of total turnover for the wholesale and retail sector. Therefore even if fully passed on in prices, a 20 per cent tax on profits would add only around 1-2 per cent to the cost of goods sold by the retailers affected.

As a result of these factors, there are likely to be limited increases in prices at the retailers affected. However, this will depend on the specific circumstances of the retail subsectors affected. For example, if a specific sector was dominated by large UK-owned retailers with limited off-island competition and was selling products for which profit represented a large proportion of cost then there might be more of a price increase expected as the four points above may not necessarily hold for all retail subsectors. It is not clear that any of the retail subsectors affected meet all these conditions, but some sectors may meet some of the conditions.

If there is an increase in prices, this will impact on the general rate of inflation in Jersey (as measured by changes in the Retail Prices Index - RPI). The companies affected make up around 50 per cent of sales by GST-registered businesses, and the subsectors involved impact less than half of the RPI calculation (the combined weighting of food,

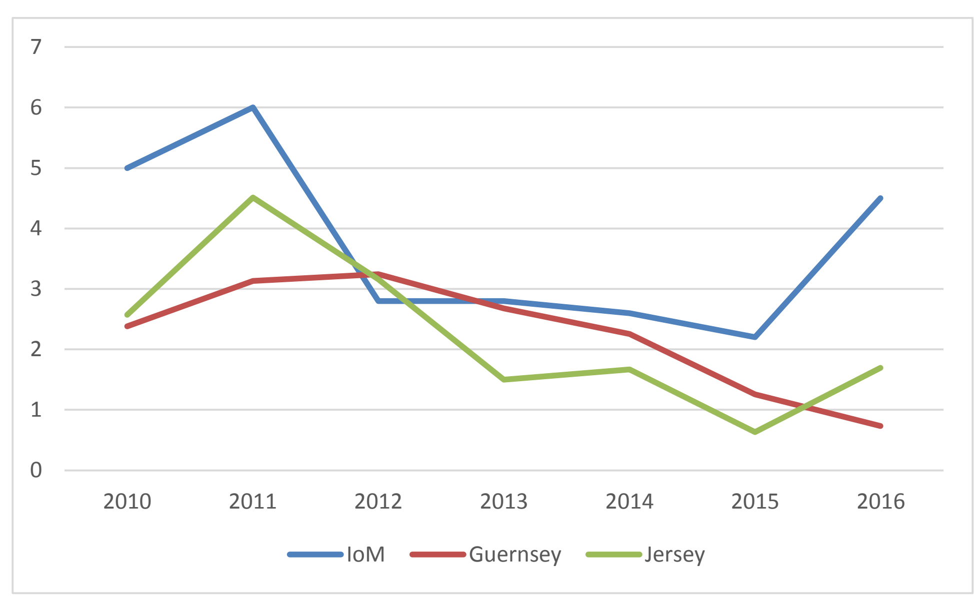
tobacco, household goods, clothing, motoring, and leisure goods). Therefore even if the tax resulted in a 1 per cent increase in prices in the retailers affected, this would likely translate into less than a ½ per cent increase in the overall price level. However, the actual impact may be much lower as affected retailers will have limited ability to pass on as much as a 1 per cent increase in prices, due to the reasons above.

Any increase in the price level is likely to be a one-off increase unless it leads to higher wage demands. The potential small scale of any change in the overall price level may make this less likely.

There is limited evidence of any significant price impact in other jurisdictions. Discussions with Northern Ireland indicate that there was no evidence that retailers deviated from prices set at a UK-wide level, however this risk may have been partially mitigated by the temporary nature of the scheme there (which was a three year increase in rates for large individual premises, rather than Corporation Tax). Similarly, no increase in prices was attributed to the introduction of a retail tax in Guernsey or the Isle of Man.

Inflation tends to follow broadly similar trends in Guernsey, Jersey and the Isle of Man; but can differ somewhat in individual years. No clear upward trend can be seen in Figure 74 for the year in which the retail tax was introduced in either the Isle of Man (2013) or Guernsey (2016). It is, however, difficult to draw any conclusions from this data as there are different trends which might be impacting on inflation at different times in each of the Crown Dependencies, and there will be methodological differences in the way RPI is calculated – including differences in the 'basket' of goods and services for which prices are measured.

Figure 74 – RPI inflation in the Crown Dependencies (annual average % change in the RPI)



Source: Jersey Statistics Unit, Isle of Man Cabinet Office, States of Guernsey Data and Analysis

APPENDIX B
(to P.90/2017 Amd.(4).Com.)

IMPACT ON FIRMS/ECONOMIC OUTPUT: EXTRACT FROM:
"APPENDIX 11 – ECONOMIC AND DISTRIBUTIONAL ANALYSIS OF THE PROPOSED EXTENSION OF CORPORATE TAX"

Impact on firms/economic output

If firms are unable to pass the tax on in prices or by reducing other costs, they may need to absorb the tax increase through reduced profits. At the margin, this may affect investment decisions – but given the size of the tax as a percentage of the overall cost base it is unlikely to be the sole reason for firms closing down or relocating. For a firm with a 7 per cent profit margin (average for the sector), the tax would make up a maximum of 1½ per cent of total costs.

No tax will be collected on firms with taxable profits below £500k so any firm paying the tax will still be profitable, even after paying the tax, meaning that the tax itself will not make any existing operation untenable. A similar scheme in Northern Ireland (based on increasing rates for large retailers, rather than corporate tax which is based on profits) is not thought to have led to any store closures over and above those which were already planned, as part of UK-wide restructuring – though this risk have been partly mitigated in this case by the temporary nature of the increase.

While the scope to shut down operations may be limited – the tax could however give some incentives to firms to reduce their operations (or reduce margins) in order to reduce their profits or turnover below the threshold. This is particularly likely for those firms who are very close to the threshold. However, it is understood that none of the retailers identified have a turnover below £2.5m, so these firms may have limited opportunity/incentive to avoid the tax plus as the tax would only levied at the full 20 per cent rate on profits above £750k then this risk is further mitigated.

In the absence of information on how firms are likely to respond, it is not possible to estimate the overall impact on economic output (gross value added – GVA) or productivity. The wholesale and retail sector makes up around 7 per cent of the economy (£288m of GVA in 2015). However, given that only a proportion of the retail part of the sector is affected (and none of the primarily wholesale firms in the sector), there is not likely to be a significant impact on an economy-wide basis.

If there is some reduction in market share by large retailers who decide to scale back activity/employment, this will often be picked up by smaller retailers who are unaffected by the tax. This may have marginal impacts on productivity at the sector/economy-wide level but there is insufficient data to indicate whether the impact would be positive or negative. Evidence from the UK shows that in the broader 'services: distribution, hotels and restaurants' sector, medium-sized businesses (50–249 employees) are the most productive, with micro-businesses (1 to 9 employees) being least productive:

Figure 75 – Output per worker in UK Distribution, Hotels and Restaurants Sector, average 2008-2014

Business size	Labour productivity (£)
Micro (1-9 employees)	25,700
Small (10-49 employees)	29,600
Medium (50-249 employees)	38,100
Large (250+ employees)	28,700

Source: UK Office of National Statistics

https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/adhocs/005325additionalanalysisofthedistributionofproductivitybyfirmsizeandindustry

If similar trends exist in Jersey, therefore, there may be a reduction in productivity if micro firms were to increase their market share and their level of employment, at the expense of small or medium firms. The majority of larger corporate retailers appear to be headquartered in the UK. Whether the tax on large corporate retailer is an absolute cost for these businesses will depend on the UK tax position of the direct parent company. The tax analysis applicable in the UK is complex and uncertain, as it depends on factors such as the size of the relevant UK company/group and whether it has made certain elections.

Normally the profits of Jersey permanent establishments of UK companies are taxable in the UK, with double tax relief available in the UK for any Jersey tax suffered to prevent the double taxation of profits. In this situation any additional Jersey tax payable as consequence of the proposed measure should not be a material overall cost to the business.

However UK tax law allows UK tax resident companies to elect for the profits of their non-UK permanent establishments to be exempt from corporation tax. This election is not available to all UK companies and some companies may simply choose not to make the election. To the extent that the profits of a Jersey permanent establishment are the subject of such an exemption election in the UK, any additional Jersey tax payable would be an additional absolute cost to the business.

Distributions paid from Jersey subsidiaries to their parent company in the UK will be exempt from UK corporation tax. This exemption does not apply in all cases and companies can elect for the exemption not to apply. To the extent that distributions from Jersey subsidiaries are exempt from tax in the UK, any additional Jersey tax payable would be an additional absolute cost to the business.

To the extent that the distribution from Jersey subsidiaries is taxable in the UK, the UK should give unilateral tax relief for the underlying corporate income tax paid by the subsidiary in Jersey. In this situation any additional Jersey tax payable should not be a material overall cost to the business.

For a Jersey-resident individual who owns shares in a large retailer which is subjected to tax, the effect will largely be an acceleration of tax (i.e. the tax will be collected from the company's profits but this will be given as a credit when calculating the individual's personal tax liability) such that the distribution is not also taxed. This could however impact on cash flow within businesses, e.g. where shareholders are not distributing profits as they are being retained within the business to fund growth. In this case, the company may not be able to invest as much in growth, unless external funding could be raised. This may have some economic impacts, though of course shareholders will have an incentive to invest additional cash to maintain cash flow and fund growth.

[P.90/2017 Amd.(4).Com. ends]

APPENDIX 3

Letter to the Jersey Chamber of Commerce

Minister for Treasury and Resources
P O Box 353, Cyril Le Marquand House, The Parade
St Helier, Jersey, JE4 8UL
Tel: +44 (0)1534 445502

States of Jersey

The Executive Council
Jersey Chamber of Commerce
Chamber House
25 Pier Road
St Helier
JE2 4XW

22 January 2018

Our Ref: AM/RS

Dear Executive Council,

TAXING THE PROFITS OF LARGE CORPORATE RETAILERS

You wrote to the Treasurer of the States on 15 January about the above matter and, having discussed it with the Treasurer, I thought on this occasion that it would be more helpful if I replied as Treasury Minister.

I want to clarify, first, that I did not claim (as your letter implies) that we conducted a year's consultation with retailers on the taxation of the profits of large corporate retailers. What I said was that the Treasury had carried out 12 months of work. Part of this work involved engagement with companies which might have been impacted by the proposed measure as well as representative bodies.

It's worth recapping on the background and chronology. In December 2016 (during the Budget 2017 debate), the States Assembly agreed to tax the profits of large corporate retailers in the following terms:

> "…to agree in principle that from 2018 a higher rate of tax on profit should be applied to retail businesses operating in Jersey, whether owned by Jersey resident companies or by non-resident companies, where annual taxable profits exceed a certain threshold (which is to be determined during 2017) providing this does not pose a risk to the zero-ten regime and to direct the Minister for Treasury and Resources to bring forward the necessary legislative changes for debate by the Assembly during 2017".

Senator Sarah Ferguson originally proposed the measure (as a Budget amendment) from which the above remit emerged. She had clearly wanted taxation to be introduced quickly and proposed that the Assembly adopt a carbon-copy of the Guernsey large corporate retailer regime. That would have seen all profits taxed at 20%, once profits exceeded £500,000.

Ministers did not support the proposal in this form, because of the exceptionally-high marginal cost of the first pound of profit over £500,000, which could have discouraged businesses from growing.

The Treasury's approach

Since the decision of the States Assembly in December 2016 to introduce this tax, the Treasury undertook research and analysis to determine whether taxation of large corporate retailers would be feasible (in light of our international treaty obligations) while maintaining 0% as our standard rate of taxation, as tasked by that decision. We concluded that it would be.

The Taxes Office subsequently analysed individual retailers' profits and identified for itself those taxpayers which could be affected. (I should make clear that I have never been given access to that specific information as that would breach the Comptroller's duty to maintain taxpayer confidentiality.) Officials also discussed the potential economic and distributional impact of such taxation with the States economists, and reviewed the experience in other tax jurisdictions (especially Guernsey where large corporate retailers are also taxed at 20%).

Once officials and Ministers were confident that we understood the potential, and the potential impacts, of such a measure, I asked officials to engage and with Jersey's potentially-affected retailers to understand their views and to explain how we proposed to mitigate the obvious downsides of mirroring Guernsey's approach.

As can be seen from the slide pack included in your letter to the Treasurer, the opening slide used by officials in presenting the proposals included an opportunity for attendees to address policy concerns to me, including my email address.

Following this work and briefing by officials, and with the support of the Council of Ministers, I formally proposed a scheme on 2nd October 2017 in the draft Budget 2018 with a sliding scale to avoid the "cliff edge" that we had identified as potentially damaging.

Under these proposals, a large corporate retailer starts paying tax on profits between £500,000 and £750,000 on a sliding scale, and the 20% tax rate only applies when annual profits reach £750,000. I accept that retailers do not like the proposal, but, I would hope that they recognise the work that had been undertaken to reduce the impacts compared to the original proposal.

Some retailers (but surprisingly few), the JCC, the JRA and others made their views very clear on the proposed measure in subsequent weeks including, for example, JFL's submission to the Corporate Services Scrutiny Panel and via the Jersey media. I do not believe the measure will have the negative impacts asserted by some people - and I consider that the statistical data from Guernsey supports that view. I do believe that the majority of islanders support this measure, partly because it addresses long-held concerns about the level of tax contribution made by some of our largest high-street names (particularly those which are not locally-owned). I understand that the majority of retailers who will pay tax are not locally-owned. They will now pay more tax in Jersey - and possibly less elsewhere.

States Members not only received the Budget document which included the detail of the measure proposed and the economic and distributional analysis, but they also received the findings of the Corporate Services Scrutiny Panel and its advisors.

Given the presence of Treasury officials throughout the debate (who were available to answer questions from States Members outside the Chamber) and also given the length and depth of that debate, I would be very surprised if any States Member was unaware of the opposition and views of some large corporate retailers and representative bodies to having those companies' profits taxed, or that retailers felt that 10% was a more acceptable rate to them.

Even if all of the potentially-affected retailers did not take up the opportunity to meet with officials ahead of proposals being finalised, all of them, their tax agents and their representative bodies had the opportunity to make representations in the period between the Budget being lodged and the Budget debate. The statutory period between Budget lodging and Budget debate always ensures that everyone in Jersey has at least eight weeks to make representations to Ministers and States Members – as well as Treasury officials – on any Budget proposal. This Budget was announced on 2 October and was not debated until the week commencing 27 November. And the Assembly did, of course, also debate an amendment to reduce the rate of tax to 10%.

Scope to reconsider the measure

I recognise that all retailers - not just those with large profits - have previously (before 0/10) been taxed at 20%. I am always prepared to review how the tax systems work and the impacts of existing tax measures we have in place: and I know that you will be aware of the extensive review under way into the personal tax system and the numerous reviews that we are charged to undertake by the States Assembly in this coming year

The programme of policy review work is ultimately agreed by me as Treasury Minister. Once officials receive data about this measure, it would seem sensible to consider a policy evaluation review - as you would expect us to undertake with any significant new tax measure - in order to assess whether the estimates of yield and the economic and distributional impacts have been accurate.

The Taxes Office will be engaging with those retailers which are due to be taxed on their profits over the coming months. To preserve taxpayer confidentiality, it is more likely that that will need to be undertaken with individual taxpayers.

General consultation on tax measures

Finally, I do recognise that our engagement with JCC and other representative bodies on tax measures is important. We rely on each other to speak up when we have something to contribute. The Treasury's doors – both Ministerial and official – are open to the JCC and other representative bodies to discuss any issues of tax policy and, of course, we do already meet regularly.

You will be aware of various new proposals adopted by the Assembly for review in 2018 during that same Budget 2018 debate. The States Assembly has asked me to undertake a number of reviews which could impact on the retail sector, including the

taxation of the profits of mutual trading; on VAT wrongly charged on postal importations; on extending GST to the importation of digital services; on the taxation of large liquor vendors; and bookmakers.

I do urge you to engage early with the Treasurer, and the Comptroller of Taxes and his team (who lead our tax-policy development programme) and, in due course, with me. Indeed, I would suggest that we supplement our meetings with further regular meetings at officer level and that you meet with Treasury officials for the first of those before the end of the month.

Again, thank you for your letter and I hope that my response has assisted your understanding of the process and work undertaken.

Yours sincerely

Senator Alan Maclean
Minister for Treasury and Resources

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APPENDIX 3 ***(cont'd.)***

Letter to the Jersey Consumer Council

Minister for Treasury and Resources
P O Box 353, Cyril Le Marquand House, The Parade
St Helier, Jersey, JE4 8UL
Tel: +44 (0)1534 445502

Mrs Anne King
Jersey Consumer Council
9-13 Central Market
St Helier
JE2 4WL

31 January 2018

Our Ref: AM/RS

Dear Mrs King

TAXING THE PROFITS OF LARGE CORPORATE RETAILERS

1. Thank you for your letter of 24th January expressing concern that the taxation of the twenty or so largest retailers in Jersey may stoke food inflation. I do not believe that it will have the significant impact you fear.

2. Appendix 11 of the Draft Budget Statement 2018 contains the economic analysis of the tax extension and sets out the main reasons why the impact on prices is likely to be limited. I will not repeat that here.

3. As was mentioned during the Budget debate, Guernsey's official statistics simply do not demonstrate significant inflation in food prices from the inception of their tax extension in January 2016 to the December 2017 figures. That was, of course, also introduced at a rate of 20% on <u>all retail profits</u> once a £500,000 threshold is exceeded. Critics have failed to address this fundamental point.

4. And it's always worth recognising that the move from 20% to 0% taxation of retail profits (when we moved to the 0/10 regime) did not herald a reduction in price inflation (suggesting a rather tenuous relationship between the quantum of retail profits and the level of retail prices).

5. It's perhaps worth starting by stating the obvious – that many food retailers will not be affected at all by this measure. It only affects the largest corporate retailers with profits exceeding £500,000. The 20% tax rate only applies when annual profits reach £750,000.

6. I do not know the sectoral breakdown of the large corporate retailers potentially affected by the taxation of large profits (due to the rules on taxpayer

confidentiality). The Comptroller of Taxes has, however, indicated that food retailers comprise a minority among that number.

7. It is common knowledge that one major food retailer – the Channel Islands Co-Op – is not liable to the tax (because of its mutual status) which must put a brake on others seeking to exploit the Budget measure to excuse food price increases.

8. Locally-owned companies will pay no more tax as a result of this measure as their distributions will have tax credits attached. And even companies owned offshore may pay no more tax overall (simply more of what they do pay to the States of Jersey) – depending on their structure and tax arrangements in their home jurisdiction.

9. Given that, it is hard to fathom why there would be the level of impact you fear. One large offshore food retailer is reported by the JEP to have said that this measure will not affect its pricing; another has seen me recently and expressed no real concerns on this front. So I am aware of three of our largest food retailers who are unlikely to increase food prices on account of this Budget measure. The economic effect of that level of price competition should allay your worries?

10. I would welcome your views in due course on the taxation of mutual trading which was proposed by Senator Ozouf during the Budget 2018 deliberations and where I have undertaken to conduct a review.

11. All of this does not mean, of course, that there will be no price inflation in Jersey's retail food sector - given all of the other international factors (including Brexit) which are affecting supply. The whole Council of Ministers remains alive to the cost pressures facing islanders. We will continue to do our best to support those who need the States' help most.

12. I really must finish by challenging your assumption that this was done without proper consideration or consultation. I accept we have rejected some of the representations made to us (particularly by those most likely to be affected by taxation who argued for a lower rate). But we did consider all representations carefully.

13. Senator Ferguson proposed this measure in December 2016 as a carbon-copy of what Guernsey was already doing. The Council of Ministers feared that the Guernsey approach could affect growth and wanted time to produce something better: I believe that we have.

14. During 2017 we consulted Guernsey on their approach; we consulted our own economists on the potential impacts; and we engaged potentially-affected retailers in September 2017. The States Assembly did not actually request that large corporate retailers be consulted (and certainly not on the question of whether they would like to be taxed and at what rate!). Even so, my officers

were careful to engage potentially-affected companies about what was proposed and how we would mitigate some of the least favourable aspects of the Guernsey approach.

15. The draft Budget was published in October and we listened carefully to the lobbying and representations we then received in the run up to the Budget debate at the end of November 2017. The States Assembly thoroughly debated the issue (including a different rate of tax); and was minded to proceed.

16. I do hope this goes to some way to alleviating your concerns about the extension of the 20% rate to the profits of large corporate retailers. I remain fully committed to reviewing the impact of the measure as data emerges and am happy to review any evidence you wish to adduce of negative impacts.

17. You will be aware of various new proposals adopted by the Assembly for review in 2018 during that same Budget 2018 debate. The States Assembly has asked me to undertake a number of reviews which could impact on the retail sector, including the taxation of the profits of mutual trading (mentioned above); on VAT wrongly charged on postal importations; on extending GST to the importation of digital services; on the taxation of large liquor vendors; and bookmakers.

18. I do urge you to engage early with the Comptroller of Taxes and his team (who lead our tax-policy development programme) and, in due course, with me.

Yours sincerely

Senator Alan Maclean
Minister for Treasury and Resources

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