

2.12 Deputy G.P. Southern of the Chief Minister regarding the Zero/Ten fiscal strategy:

Will the Chief Minister explain to Members what aspects of his Zero/Ten fiscal strategy have been called into question by H.M. Treasury or other authorities as not compliant with the E.U. code on business taxation and will he state whether the look-through proposals for taxing local non-finance businesses are the subject of particular attention?

Senator T.A. Le Sueur (The Chief Minister):

Discussions with the Financial Secretary to the Treasury have been focused around changing international norms for taxation. There have been no technical discussions on the look-through proposals, nor indeed any other elements of the Jersey business tax system. In respect of the code, the report of the Code of Conduct Group to the E.C.O.F.I.N. Council on 28th November 2006 states, and I quote: “The U.K. delegation, recalling the Code Group report dated 26th November 2002 explained that with the introduction of a standard rate of tax for all Isle of Man companies of zero per cent and a higher rate of 10 per cent on 2 closely defined types of business, the Isle of Man’s 6 harmful measures were all repealed or revoked. This was accepted as constituting the roll-back of the harmful regimes.” It is this record that has always given me the satisfaction of knowing that we have met the form of the code and I still believe that to be the case. However, it is clear that the major changes in the world economy have caused the E.U. member states to review their general position in relation to the underlying principles of the code. It is for this reason that I have had discussions with the U.K. and the other Crown Dependencies in order to ensure that we are ready and able to respond positively to changes as they become more formed. It is therefore a much broader question of the spirit of being a good neighbour which includes not just whether our tax structure could be considered to be inimical to the interests of competition across Europe but also the reciprocal commitment of other European states on such matters as the recognition of equivalence, market access and double taxation agreements with the Crown Dependencies. Jersey must always be prepared to respond to changing circumstances and we will work as closely as possible with the other Crown Dependencies, the U.K. and European Union member states to ensure that our regulatory and tax regimes are viable and competitive and are supported by our European neighbours. I believe that this will ensure that we retain our leading position as an offshore finance centre and thereby continue to support the well-being of all Islanders.

2.12.1 Deputy G.P. Southern:

Does the Chief Minister accept the findings of the Scrutiny Panel back in 2005 where it suggests that the oral evidence received from Senator Le Sueur discussed the roll-back section of the code and the standstill section of the code and committed itself that it would not introduce any new laws which offended the code? Does the provision of look-through which has now gone through the States offend that code and will he take it back?

Senator T.A. Le Sueur:

The short answer is that I have no indication at all that look-through offends the code but, as the Deputy well knows, the whole of our fiscal strategy is under review and that and all other aspects will be looked at. Clearly it is likely that we will move from the current arrangements but I am not at this stage in a position to give any indication

or suggestion even of what changes might be made. That would be a matter, ultimately, for the Members of this House to decide for themselves.

2.12.2 Deputy T.M. Pitman:

Given that in an earlier answer, the Chief Minister appeared to tell us that confirmation of Zero/Ten's compliancy was indicated not by letter, as most of us would have expected, but on something far more vague and perhaps tenuous. Could he explain to the House why he has not listened to individuals such as Senator Syvret and Deputy Southern who had real reservations about this and planned seriously to introduce alternative tax measures that would ultimately ensure Joe Average is not hit in the pocket yet again?

Senator T.A. Le Sueur:

Compliance was not achieved by letter but, as far as I am concerned, I place far more reliance on the comments of the Code of Conduct Group of E.C.O.F.I.N. which I have just quoted, than the views of Members of this Assembly whose views, while I recognise them, are simply one aspect. The statements in the E.C.O.F.I.N. comment that Zero/Ten was accepted as constituting the roll-back of harmful regimes, although not in legislation was, as far as I am concerned, an adequate and satisfactory report for my purposes in believing that the proposals that we made were the right ones to take forward. The Deputy also made a comment in the end that it puts an additional burden on Island residents. I would point out to him, as I pointed out to Members who were in the States at that time that failing to move to Zero/Ten would have put a far more significant burden on Island residents.

2.12.3 The Deputy of Grouville:

Would the Chief Minister agree that the tax structure we have in place at the moment discriminates against locals and against local businesses and we have since lost many of our larger building firms which have arranged their affairs offshore?

Senator T.A. Le Sueur:

Businesses come and go for a variety of reasons; not simply taxation. It could be just lack of continuity among the family or a good offer or a whole variety of reasons. The fact that our tax structure does have some anomalies in it is a question which I know was being addressed by myself and the current Minister for Treasury and Resources, primarily in relation to the trading companies operating in Jersey and that will continue to be a matter for discussion. As the Deputy and Members are no doubt well aware it was looked at once again by a scrutiny panel earlier this year and I believe that the Minister for Treasury and Resources may well have comments to make about that in the forthcoming budget.

2.12.4 Deputy D.J. De Sousa:

Does the Minister not now consider that now is the appropriate time to have a full and transparent inquiry into all taxation and including a look into progressive and fairer taxation for all at the earliest opportunity and reporting back to the House on the findings?

Senator T.A. Le Sueur:

Yes, in fact it is not just now that is the time, but it is back in August that the Treasury announced a full review of our tax system which I am sure will be a transparent process in which all Members and members of the public will be invited to contribute.

So I believe that will enable the Island to continue, as it still does now, to have a progressive tax system but I do not want to go back into the arguments we have had for years about how progressive a tax system it is. All I would say is it is under review and the principles and the outcome of that review will be discussed fully, I am sure, by all Members.

2.12.5 Deputy D.J. De Sousa:

Just a quick supplementary; will that include 1(1)(k)s as well?

Senator T.A. Le Sueur:

It is not my review; it is the Minister for Treasury and Resources' review but I believe he is making it as broad as possible and I am sure that any representations about 1(1)(k)s or any other elements of taxation, current or possible potential sources of revenue will be considered and reported to this House.

2.12.6 Deputy G.P. Southern:

Does the Chief Minister now pay any heed to the warnings of the adviser to the Scrutiny Panel in 2005 who stated clearly that: "Any system that breaks down that divide for a selected group of shareholders defined solely on the basis of their residence appears to create a ring fence. When that ring fence acts to the detriment of resident-owned companies to ensure the protection of domestic revenues, as is undoubtedly the case in the proposed look-through tax in Jersey, then it is apparent that the E.U. code has been broken." Does he not now agree, in hindsight, with that advice he received in 2005?

Senator T.A. Le Sueur:

No, I listened to views from a variety of people and at the end of the day I make recommendations and this House agrees proposals based on advice from a variety of people. One has to balance different views and certainly I do recognise advice from that quarter just as I also recognise other advice from different quarters pointing me in different ways. There is no simple solution and never one answer. What we proposed in 2005 was, I believe, the appropriate solution at that time. It has stood the Island well. It has maintained our position as a pre-eminent finance centre in the world [**Approbation**] and I believe that we can be proud of the way we have reflected the changing circumstances at that time and I hope we will continue to reflect those changing circumstances in the current review and the outcomes that we deliver from that.

2.12.7 Deputy G.P. Southern:

A final supplementary if I may; the Chief Minister has made many references to changes in attitude and changes in circumstances. Will he list for the House what those changes are in order that we can understand why the problem is where it is?

Senator T.A. Le Sueur:

A change in attitude is a very subjective thing and I would be in no position to voice individuals' views when I have not heard those views firsthand. Certainly, as far as the economic situation is concerned it is quite clear to me and I am sure clear to all Members the different economic situation that we face now compared with that we were facing in 2006. If the Member wants fuller details of that, I think he can simply read the financial press for the last 12 months.

The Bailiff:

We come to a question which Deputy Trevor Pitman will ask of the Minister for Health and Social Services.