

Report on the revised forecast of States income for autumn 2020

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Income Forecasting Group

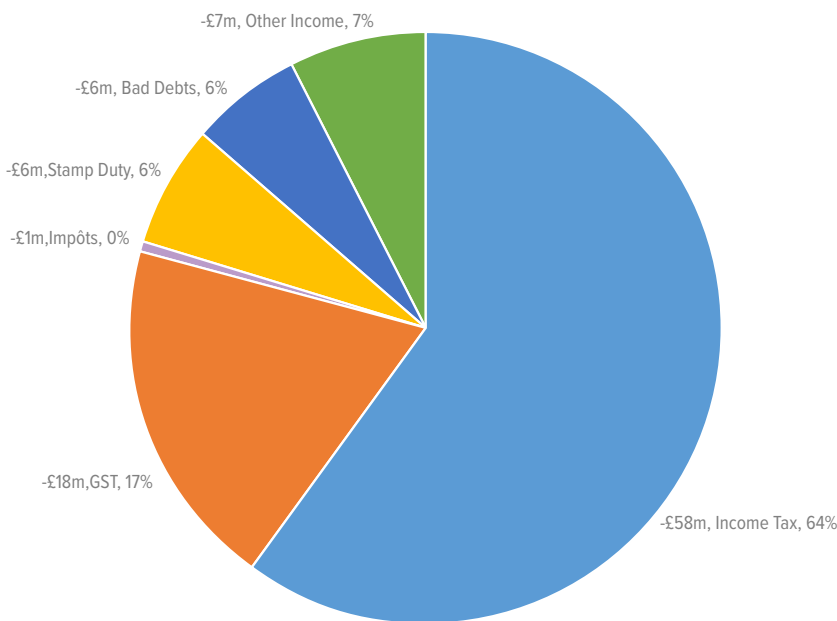
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1. Executive Summary

- 1.1 Since the Income Forecasting Group (IFG) spring 2020 forecast¹, the Fiscal Policy Panel (FPP) have updated their economic assumptions² to incorporate the latest data and economic analysis.
- 1.2 The Covid-19 pandemic has had an immediate and significant impact on Jersey’s economy and therefore its public finances. The Income Forecasting Group (IFG) has consequently reduced its autumn 2019 forecast for total States income in 2020 by £96 million (11.0%), when compared to the forecast made to inform the addendum to the Government Plan 2020-23 (P.71-2019 Addendum). Around half of this reduction (£58 million) is due to downgrades to the forecast for income tax, with £18 million from lower GST, £6 million from stamp duty, £1 million from reduced impôts, £7 million from ‘other income’ and £6 million from an increase to the forecast for bad debts.

Figure 1 – The variation in forecast States income in 2020

Year 2020 (£96m) Forecast variation to autumn 2019



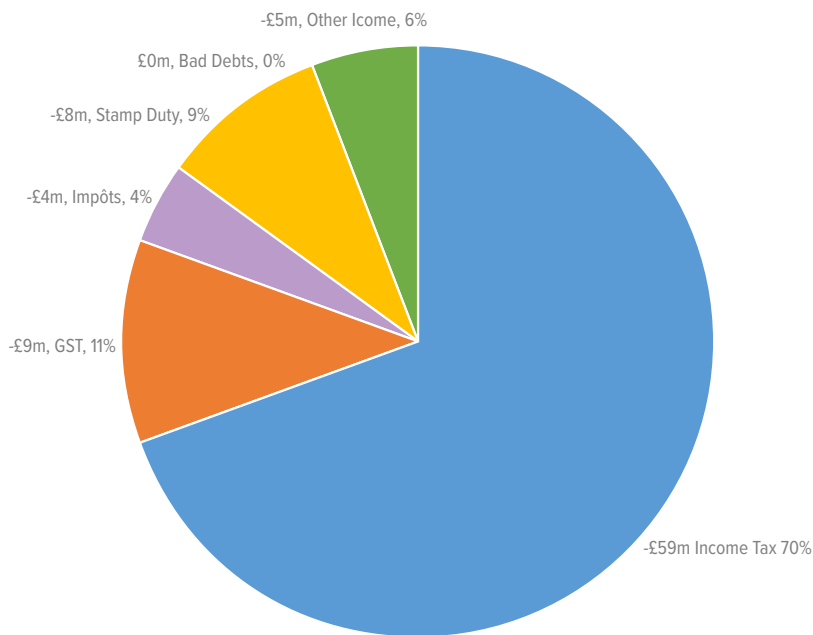
¹ Report on the revised forecast for States income for spring 2020 - <https://www.gov.je/Government/Pages/StatesReports.aspx?ReportID=5244>

² FPP Economic Assumptions August 2020 - <https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/ID%20Fiscal%20Policy%20Panel%20economic%20assumptions%20August%202020%2020200805%20CB.pdf>

- 1.3 The Covid-19 pandemic has caused significant disruption to the economy, as necessary restrictions have been put in place to reduce its spread, which in turn affects the tax base. While restrictions have been partially eased, the speed of the recovery and the timing and extent of any further easing or re-imposition of restrictions remains uncertain. The IFG’s forecast has been informed by the independent economic forecast produced by the Fiscal Policy Panel (FPP).
- 1.4 While Jersey has moved through the Safe Exit Framework, significant restrictions were in place for much of the year – with Level 4 restrictions in place for six weeks, followed by four weeks at Level 3 and eight weeks at Level 2. This has a very significant impact on revenues in 2020 and, while revenues are expected to gradually recover, revenues are expected to be lower than previously forecast throughout the Government Plan period. The new IFG forecast for 2023 is around £85 million (8.6%) lower than the Government Plan forecast, primarily due to a reduction of £59 million in the income tax forecast with stamp duty £8 million lower, GST £9 million lower, ‘other income’ £5 million lower and impôts £4 million lower. This is consistent with the FPP forecast for the economy to be around 6% smaller than their pre-pandemic forecast, in the medium term.

Figure 2 – The variation in forecast States income in 2023

Year 2023 (£85m) Forecast variation to autumn 2019



- 1.5 The forecast remains highly uncertain, with a number of potential risks continuing to exist in relation to the Covid-19 outbreak:
- The medical situation may require a second phase of restrictions
 - The potential for a larger impact on financial services, through a contagion effect either from the global or local economies. This is a particular risk to corporate tax, as banks pay a significant proportion of corporate tax and may see reduced profits in the event of suffering significant loan impairments. Further, uncertainty remains over the future path of benchmark interest rates, which are a large driver of profits for the banking sector
 - Long-term structural impacts, for example due to the failure of some key businesses
 - Further restrictions on travel or a permanent reduction in travel following the pandemic. This would delay the recovery in the visitor economy and could hinder the development of new business for exporting sectors
 - A prolonged reduction in domestic demand due to a strain on household finances and reduced consumer confidence
 - A prolonged reduction in business investment due to a strain on corporate finances and reduced business confidence
 - Changes to consumer behaviour, for example a permanent increase in the shift to online retail
 - In addition to downside economic risks, there is a further layer of downside risks to tax:
 - The potential that bad debts will increase more than in the base case forecast
 - A potential trend for greater retention of profits in locally-owned firms, resulting in lower distributions.
- 1.6 In addition to risks from the Covid-19 outbreak, the longer-term risks remain:
- The uncertainty regarding the UK's future trading relationship with the European Union. While negotiations have been disrupted by the Covid-19 pandemic, the UK Government has ruled out any extension to the end of the transition period beyond the end of 2020. The IFG forecast assumes that the UK moves in an orderly fashion to a new trading relationship, at the end of the transition period.
 - Risks to financial services, including the challenge of compliance with any changes to international treaty requirements. The pressure the current crisis has put on public finances around the world may result in an intensification of these requirements, which may have unintended negative consequences for Jersey's financial services sector. In addition, the risk to the Jersey financial services sector posed by the possible behavioural responses of multinational companies to changing international tax rules and, in particular, the OECD work on the Taxation of the Digitalised Economy.

- Longer-term challenges including low productivity growth and the impacts of an ageing demographic.
- 1.7 Under the downside scenario from the spring 2020 forecast, the forecast for total States income in 2020 was £163 million (18.6%) lower than the autumn 2019 IFG forecast. The majority of this reduction (£100 million) was due to downgrades to the forecast for income tax, with £24 million from lower GST, £16 million from stamp duty, £10 million from reduced impôts, £6 million from ‘other income’ and £6 million from a forecast increase in bad debts.
- 1.8 However, the autumn 2020 forecast is considered by the IFG as the central forecast, with the spring 2020 downside scenario included in Section 7 for information only. In future, several indicators will be closely watched to consider the extent to which the outcome may diverge from the IFG’s central forecast.
- 1.9 Key indicators include:
- The latest data and forecasts for the global economy
 - Sentiment in Jersey’s key sectors – informed by both discussions with key business leaders and the results of the Business Tendency Survey
 - Local survey evidence on the impact of the Covid-19 outbreak
 - Finance sector profit and employment projections
 - Revenue Jersey intelligence on corporate tax projections
 - Data on employment and on the number of Social Security contributors
 - Number of people registered as Actively Seeking Work
 - Inflation
 - Average earnings
 - Residential property prices and transactions
 - Vacancies data from gov.je and other sources
 - Data from GST returns
 - Employer returns from the Income Tax Instalment System (ITIS)
 - Aggregated data on credit card spending
 - Data from the support schemes that the Government of Jersey has put in place:
 - The Co-Funded Payroll Scheme
 - The Business Loan Disruption Guarantee Scheme.
- 1.10 In the first instance, the Fiscal Policy Panel will be asked to update its forecast for the economy, using any new information that is available, plus the latest expectations for the extent and duration of any restrictions that remain in place. The income forecast will then be revised based on the updated FPP forecast and data from Revenue Jersey.

- 1.11 The autumn 2020 forecast should be read in conjunction with the spring 2020 forecast.

2. Purpose

- 2.1 The purpose of the Income Forecasting Group's report is to provide the revised forecast of total States income as at autumn 2020. The forecast reflects:
- The Fiscal Policy Panel's (FPP) economic assumptions of August 2020 and other related economic data for Jersey
 - General revenues outturn for 2019
 - Initial information on general revenues for Quarters One and Two 2020
 - Forecasts from Treasury for 'other income'
 - Latest available outturn data from Revenue Jersey
 - Intelligence from the IFG affecting future forecasts.

3. Background

- 3.1 The Terms of Reference (Appendix F) for the Income Forecasting Group requires that at least two forecasts are produced each year.
- 3.2 This is the second forecast produced in 2020 and covers the years 2020-24 to cover the whole of the Government Plan period. Additional internal consideration is given to the forecasts throughout the year.
- 3.3 The IFG forecasts cover a large proportion of States income, including other States income from the Island-wide Rate, dividends and returns from States Investments, and other fees. The forecast for these income sources has been included in Appendix E.
- 3.4 The autumn forecast has been developed as a 'central forecast', to represent the IFG's view of the most likely outcome. The assumptions used for the downside scenario in the spring 2020 forecast have been reviewed and that forecast remains as the downside scenario for the autumn 2020 forecast (**Figure 7**).

4. Economic assumptions

- 4.1 The economic assumptions have been updated by the Fiscal Policy panel (FPP) based on the latest local and international developments to August 2020.
- 4.2 Further consideration has been given to the impact of the Covid-19 pandemic and data available from the restrictions in economic activity.
- 4.3 The central assumptions on which the autumn 2020 forecasts are based are shown in **Figure 3**.
- 4.4 The IFG has considered the economic assumptions from the FPP and have agreed that these assumptions should be used as the basis for the income forecast modelling, with any variations described in the relevant reports (appended).

Figure 3 – FPP Revised economic assumptions as at August 2020

% Change unless otherwise specified	2017	2018	2019	2020	2021	2022	2023	Trend 2024+
Real GVA	0.8	1.4	0.6	-7.5	3.0	1.9	1.1	0.6
RPI	3.1	3.9	2.9	1.3	1.5	2.4	2.5	2.6
RPIY	3.2	3.6	2.6	1.5	1.4	2.3	2.4	2.5
Nominal GVA	4.1	5.9	3.9	-6.3	3.9	3.2	2.9	3.1
Gross operating surplus (including rental)	-0.3	7.5	4.3	-12.9	7.1	3.2	2.6	3.2
Financial Services Profits	-6.4	9.6	2.0	-18.6	8.0	6.0	4.0	3.4
Compensation of Employees (CoE)	8.1	4.6	3.6	-0.6	1.5	3.2	3.1	3.1
Financial Services CoE	10.0	2.5	3.3	3.0	0.0	2.7	2.9	3.1
Non-finance CoE	7.0	5.8	3.7	-2.6	2.4	3.4	3.2	3.1
Employment	2.3	1.4	1.2	-1.6	1.2	0.9	0.6	0.4
Average earnings	2.6	3.5	2.6	0.3	1.1	2.3	2.5	2.7
Interest Rates (%)	0.3	0.6	0.8	0.2	-0.1	-0.1	-0.1	0.0*
House Prices	2.9	7.1	7.0	0.0	-2.0	2.7	2.7	2.7
Housing Transactions	7.8	5.3	-1.8	-20.0	10.0	1.5	1.5	1.5

*Bank Rate Forecast for 2024 Only

Figure 4 – Variation in FPP economic assumptions between March 2020 and August 2020

Percentage Point Change	2019	2020	2021	2022	2023	Trend
Real GVA	0	-1.2	-1.4	+0.9	+0.5	0
RPI	0	+0.1	-0.7	-0.1	0	0
RPIY	0	+0.1	-0.8	-0.1	0	0
Nominal GVA	0	-1.2	-2.1	+0.5	+0.1	0
Gross operating surplus (including rental)	0	-4.7	-0.6	+1.0	+0.1	0
Financial Services Profits	0	-16.6	+3.0	+3.1	+1.1	0
Compensation of Employees (CoE)	0	+1.9	-3.1	+0.1	+0.1	0
Employment	+0.2	+1.3	-1.6	+0.1	+0.1	0
Average Earnings	0	+0.9	-1.1	0	0	0
Interest Rates (%)	0	0	-0.3	-0.4	-0.5	-0.6
House Prices	0	+10.0	-7.0	-1.3	-0.3	0
Housing Transactions	0	+30.0	-35.0	-13.5	-5.5	0

5. Risks and uncertainties

- 5.1 There are a number of specific risks and uncertainties applicable to each of the forecast components, and these are described in more detail within the appended reports.
- 5.2 The Covid-19 pandemic has had a significant impact on the forecast, with the International Monetary Fund forecasting the largest contraction in economic activity since the 1940s.
- 5.3 Prior to the Covid-19 outbreak, data on the local economy suggested there was a mild slowdown during 2019.
- 5.4 Uncertainty around the UK's future trading relationship with the EU continues. However, for the purposes of the forecast the IFG assumes that the UK will make an orderly transition to a new trading relationship.
- 5.5 The increase in external regulation, particularly from the OECD, may have long-lasting consequences to Jersey's financial services sector.
- 5.6 Longer-term challenges, including low productivity growth and the impacts of an ageing demographic, will continue to cause uncertainty in the forecast.

6. Summary of autumn forecast

- 6.1 Due to the complexity of the adjustments made to each of the individual forecasts for spring 2020, the individual reports are appended, with the overall change to the autumn 2019 forecast summarised below.
- 6.2 **Personal income tax (Appendix A)** – The personal income tax forecast comprises several components that have differing economic sensitivities. A number of individual adjustments suggested by the IFG result in a

£39 million decrease to the forecast in 2020 gradually decreasing to £4 million over the following three years. However, these adjustments together with the updated FPP economic assumptions, and additional data, reduce the autumn 2019 forecast by £63 million in 2020, decreasing to a £42 million reduction in 2023.

- 6.3 **Corporate income tax (Appendix A)** – The recent broadening of the corporate tax base, and the differential effects of the Covid-19 pandemic, has led to the IFG splitting the corporate tax forecast on a sectoral basis. Additional adjustments have been made to reflect the impact of restrictions on activity on sectors subject to a positive rate of tax. Updated information for the 2019 year of assessment has resulted in an increase of £5 million to the 2020 forecast. However, from 2021 the forecast is reduced by £20 million with a £17 million reduction by 2023.
- 6.4 **GST (Appendix B)** – The restrictions to activity arising from the Covid-19 pandemic have led to a reduction in sales revenues, and hence GST receipts, in 2020. Work has been undertaken to identify the sectoral impact of the restrictions. However, the IFG continue to believe that there will be a persistent impact on GST receipts continuing in 2021, with an implicit judgement that there would be a change in consumer behaviour. This leads to a reduction in the autumn 2019 forecast of £18.5 million in 2020, decreasing to £9.5 million in 2023.
- 6.5 **Impôts duty (Appendix C)** – Available in-year data suggests that the restrictions in place to mitigate the health impacts of Covid-19 have produced a varied effect on excise duties. For example, the closure of hospitality outlets resulted in a dramatic fall in on-trade sales of alcohol, and the closure of schools and businesses led to a significant reduction in fuel consumption. However, these decreases have been somewhat balanced by an increase in volumes of tobacco being put to duty. The revised FPP economic assumptions continue to give a reduction to the presumed duty rates in future years, with the autumn 2019 forecast being reduced by £0.5 million in 2020, £2.5 million in 2021, £3.0 million in 2022 and £3.7 million in 2023.
- 6.6 **Stamp duty (Appendix D)** – Despite the Covid-19 pandemic causing significant disruption in the housing market, the easing of lockdown restrictions has permitted a resurgence in property transactions. The updated FPP economic assumptions for annual house prices and transactions have improved since the spring 2020 forecast, but now suggest a slower recovery. The in-year data and revised assumptions continue to cause a long-term reduction to the autumn 2019 forecast from £6.3 million in 2020 to £7.9 million in 2023.
- 6.7 **Other Government income (Appendix E)** – The autumn 2019 forecast has been reduced for each year of the forecast, with a decrease of £7.0 million in 2020. The main driver of the reduction in the forecast is reduced dividends from some States-owned entities and, more significantly, reduced investment returns on the Consolidated Fund and the Jersey Currency Fund.

6.8 Figure 5 provides a detailed analysis of the base case forecast which is summarised below.

Central Forecast £'000	2019 (Outturn)	2020	2021	2022	2023	2024
Income Tax	585,000	554,000	558,000	603,000	642,000	674,000
GST	89,704	78,210	84,610	90,910	94,510	98,310
Impôts Duty	62,879	67,716	67,986	69,979	71,037	71,485
Stamp Duty	34,898	29,083	30,953	30,249	31,118	32,023
Bad Debts	(3,235)	(9,000)	(6,000)	(6,000)	(3,000)	(3,000)
Other Income	71,434	59,069	58,866	60,779	64,560	66,264
Total States Income	840,680	779,079	794,415	848,918	900,224	939,081
Autumn 2019 (forecast)	850,986	875,459	909,802	947,762	985,010	
Variation	(10,306)	(96,380)	(115,387)	(98,844)	(84,786)	
	-1.2%	-11.0%	-12.7%	-10.4%	-8.6%	
Spring 2020 (forecast)		769,484	806,581	867,381	926,620	964,046
Variation		9,595	(12,166)	(18,463)	(26,396)	(24,965)
		1.2%	-1.5%	-2.1%	-2.8%	-2.6%

Figure 5 – IFG central forecast for autumn 2020

2019 Outturn	Central forecast (£'000)	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Income Tax						
467,000	Personal	434,000	461,000	500,000	534,000	561,000
475,000	Autumn 2019	497,000	524,000	550,000	576,000	
118,000	Corporate	120,000	97,000	103,000	108,000	113,000
113,000	Autumn 2019	115,000	117,000	121,000	125,000	
585,000	Total Income Tax	554,000	558,000	603,000	642,000	674,000
588,000	Autumn 2019	612,000	641,000	671,000	701,000	
(3,000)	Variation	(58,000)	(83,000)	(68,000)	(59,000)	
-0.5%		-9.5%	-12.9%	-10.1%	-8.4%	
	Spring 2020	561,000	570,000	620,000	666,000	697,000
	Variation	-1.2%	-2.1%	-2.7%	-3.6%	-3.3%
GST						
80,793	GST	69,300	75,700	82,000	85,600	89,400
85,100	Autumn 2019	87,700	90,700	93,000	95,000	
8,911	ISE Fees	8,910	8,910	8,910	8,910	8,910
9,000	Autumn 2019	9,000	9,000	9,000	9,000	
89,704	Total GST	78,210	84,610	90,910	94,510	98,310
94,100	Autumn 2019	96,700	99,700	102,000	104,000	
(4,396)	Variation	(18,490)	(15,090)	(11,090)	(9,490)	
-4.7%		-19.1%	-15.1%	-10.9%	-9.1%	
	Spring 2020	76,720	87,950	93,990	97,690	99,760
	Variation	1.9%	-3.8%	-3.3%	-3.3%	-1.5%
Bad Debts						
(3,235)	Bad Debts	(9,000)	(6,000)	(6,000)	(3,000)	(3,000)
(3,000)	Autumn 2019	(3,000)	(3,000)	(3,000)	(3,000)	
(3,235)	Total Bad Debts	(9,000)	(6,000)	(6,000)	(3,000)	(3,000)
(235)	Variation	(6,000)	(3,000)	(3,000)	-	
7.8%		200.0%	100.0%	100.0%	0.0%	
	Spring 2020	(9,000)	(6,000)	(6,000)	(3,000)	(3,000)
	Variation	0.0%	0.0%	0.0%	0.0%	0.0%
Impôts Duties						
6,132	Spirits	7,544	7,185	7,293	7,476	7,701
6,375	Autumn 2019	7,268	7,441	7,635	7,841	
8,409	Wine	8,717	8,986	9,122	9,340	9,622
8,442	Autumn 2019	8,795	9,006	9,240	9,490	
832	Cider	851	860	855	858	868
796	Autumn 2019	834	846	860	873	
6,204	Beer	6,031	6,569	6,633	6,691	6,791
6,339	Autumn 2019	6,628	6,719	6,827	6,941	
15,399	Tobacco	19,871	16,463	15,715	15,933	15,352
15,081	Autumn 2019	15,720	16,283	16,897	17,534	
22,685	Fuel	21,944	24,993	27,517	27,895	28,307
23,557	Autumn 2019	26,088	27,360	28,695	29,175	
235	Customs Duty	400	200	200	200	200
200	Autumn 2019	200	200	200	200	
2,983	Vehicle Emissions Duty (VED)	2,358	2,730	2,644	2,644	2,644
2,948	Autumn 2019	2,730	2,644	2,644	2,644	
62,879	Total Impôts	67,716	67,986	69,979	71,037	71,485
63,738	Autumn 2019	68,263	70,499	72,998	74,698	
(859)	Variation	(547)	(2,513)	(3,019)	(3,661)	
-1.3%		-0.8%	-3.6%	-4.1%	-4.9%	
	Spring 2020	60,679	68,259	69,104	70,245	70,583
	Variation	11.6%	-0.4%	1.3%	1.1%	1.3%

2019 Outturn	Central forecast (£'000)	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Stamp Duty						
29,599	Stamp Duty	24,599	26,306	25,507	26,276	27,078
28,080	Autumn 2019	29,568	30,151	31,483	32,484	
2,548	Probate	2,400	2,400	2,400	2,400	2,400
2,400	Autumn 2019	2,400	2,400	2,400	2,400	
2,751	LTT	2,084	2,247	2,342	2,442	2,545
3,162	Autumn 2019	3,433	3,702	3,924	4,090	
34,898	Total Stamp Duty	29,083	30,953	30,249	31,118	32,023
33,643	Autumn 2019	35,401	36,254	37,807	38,974	
1,255	Variation	(6,318)	(5,301)	(7,558)	(7,856)	
3.7%		-17.8%	-14.6%	-20.0%	-20.2%	
	Spring 2020	20,318	26,851	29,040	31,009	31,910
	Variation	43.1%	15.3%	4.2%	0.4%	0.4%
769,246	General Tax Revenue	720,009	735,549	788,138	835,665	872,818
776,481	Autumn 2019 incl GP measures	809,364	844,453	880,805	915,672	
(7,235)	Variation	(89,355)	(108,904)	(92,667)	(80,007)	
-0.9%		-11.0%	-12.9%	-10.5%	-8.7%	
	Spring 2020	709,717	747,060	806,134	861,944	896,253
	Variation	1.5%	-1.5%	-2.2%	-3.0%	-2.6%
Other Income						
13,895	Island-wide Rates	13,286	13,486	13,809	14,155	14,523
13,870	Other Income - Dividends	9,330	8,133	8,568	8,918	9,347
13,722	Other Income - Non-Dividends	5,651	5,473	5,784	7,967	7,949
29,947	Other Income - Returns from Andium and Housing Trusts	30,802	31,774	32,618	33,520	34,445
71,434	Total Other Income	59,069	58,866	60,779	64,560	66,264
74,505	Autumn 2019	66,095	65,349	66,957	69,338	
(3,071)	Variation	(7,026)	(6,483)	(6,178)	(4,778)	
-4.1%		-10.6%	-9.9%	-9.2%	-6.9%	
	Spring 2020	59,767	59,521	61,247	64,676	67,793
	Variation	-1.2%	-1.1%	-0.8%	-0.2%	-2.3%
840,680	Total States Income	779,079	794,415	848,918	900,224	939,081
850,986	Autumn 2019	875,459	909,802	947,762	985,010	
(10,306)	Variation	(96,380)	(115,387)	(98,844)	(84,786)	
-1.2%		-11.0%	-12.7%	-10.4%	-8.6%	
	Spring 2020	769,484	806,581	867,381	926,620	964,046
	Variation	1.2%	-1.5%	-2.1%	-2.8%	-2.6%

* Some columns may not sum due to rounding

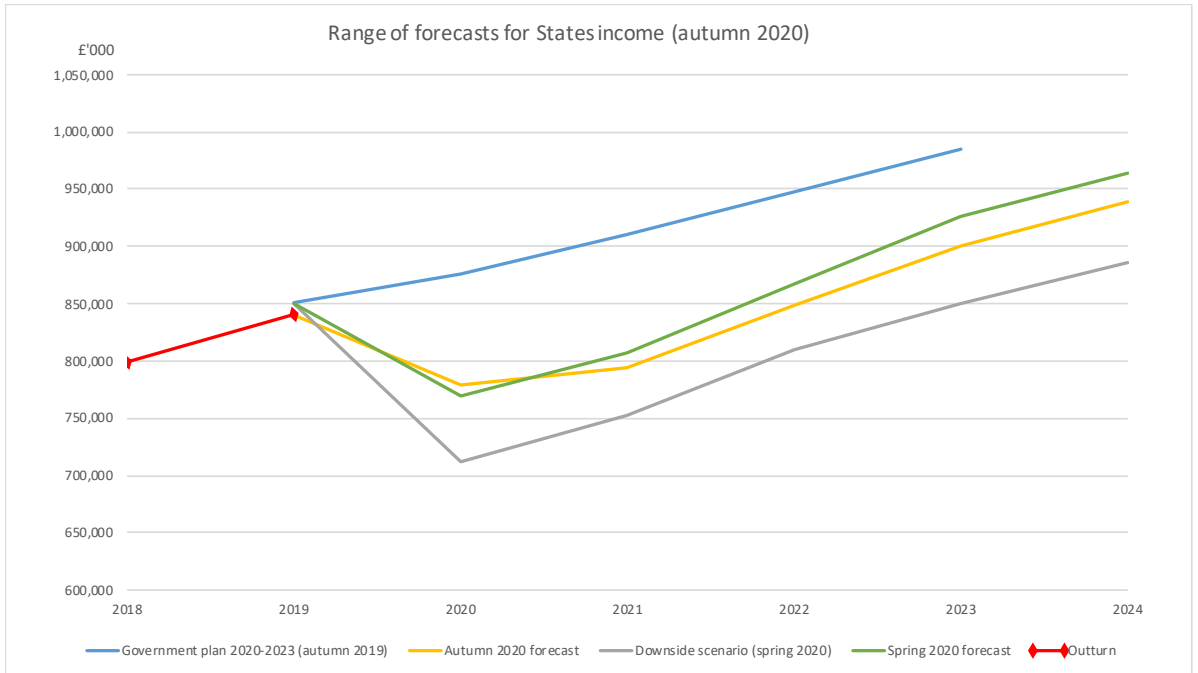
7. Downside scenario

- 7.1 The central forecast has been prepared based upon the latest FPP economic assumptions with additional consideration by IFG, as outlined in the separate reports.
- 7.2 The downside scenario determined for the spring 2020 forecast has been reviewed, and the IFG agree that the financial assumptions used remain appropriate for the autumn 2020 forecast.
- 7.3 The downside forecast assumes that the Covid-19 pandemic results in significant structural impacts and, therefore, this should not be considered a 'default' forecast if restrictions are extended.
- 7.4 The impact of the downside scenario results in a reduction of the overall base case forecast for autumn 2020 by £67 million in 2020 decreasing to £53 million in 2024 as shown in **Figure 6**.
- 7.5 The specific impact of the downside assumptions on the forecast are detailed in the relevant appended reports. In summary these are:
- 7.5.1 **Personal income tax** - A c.£50 million decrease from the base forecast for spring 2020 arising from the extended period of reduced economic activity. The downside forecast for 2024 is £54 million less than the base case, reflecting the assumption of more significant structural impacts arising from the Covid-19 pandemic.
- 7.5.2 **Corporate income tax** – No further effect in 2020 due to this being the 2019 year of assessment. However, this is followed by a c.£16 million-£19 million reduction from the base forecast for each of the years 2021-24. This reduction is a result of a prolonged period of restrictions to economic activity, and an increased negative impact of the other risks to financial services firms.
- 7.5.3 **GST** – The downside forecast includes a weaker recovery and a permanently-lower level of receipts, beginning with a decrease of £4.3 million from the base forecast in spring 2020 reducing to less than £2 million below the base forecast in 2024.
- 7.5.4 **Impôts duty** – The extended period of restrictions would only impact the 2020 year of the forecast, resulting in a decrease of £2.2 million from the base case in that year.
- 7.5.5 **Stamp duty** – A longer period of restrictions would likely result in fewer transactions of property, particularly those under £2 million or subject to Land Transaction Tax (LTT). The lower volume of transactions, and forecast decrease in property prices, further reduces the base case stamp duty forecast in 2020 by £1.2 million with an increased reduction of £2.6 million by 2024.
- 7.6 **Other Government income** – The other income forecast is considered to be similar under both scenarios.

Figure 6 – Downside scenario of IFG forecast

Downside Scenario (£'000)	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Income Tax					
Personal	397,000	451,000	486,000	508,000	531,000
Corporate	115,000	74,000	83,000	86,000	93,000
Total Income Tax	512,000	525,000	569,000	594,000	624,000
GST					
GST	63,530	72,240	80,740	86,120	89,040
ISE Fees	8,910	8,910	8,910	8,910	8,910
Total GST	72,440	81,150	89,650	95,030	97,950
Total Bad Debts	(9,000)	(6,000)	(6,000)	(3,000)	(3,000)
Impôts Duties	58,432	67,986	69,979	71,037	71,485
Stamp Duty					
Stamp Duty	15,608	20,755	22,219	23,736	24,431
Probate	2,400	2,400	2,400	2,400	2,400
LTT	1,111	1,777	2,126	2,343	2,442
Total Stamp Duty	19,119	24,932	26,745	28,479	29,273
General Tax Revenue	652,991	693,068	749,374	785,546	819,708
Variation to autumn 2019	(156,373) -19.3%	(151,385) -17.9%	(131,431) -14.9%	(130,126) -14.2%	
Total Other Income	59,069	58,866	60,779	64,560	66,264
Total States Income	712,060	751,934	810,153	850,106	885,972
Variation to autumn 2019	(162,701) -18.6%	(156,940) -17.2%	(138,016) -14.6%	(135,580) -13.8%	
Variation to autumn 2020 base case forecast	(67,018) -8.6%	(42,481) -5.3%	(38,764) -4.6%	(50,119) -5.6%	(53,110) -5.7%

Figure 7 – Comparison of autumn 2020 and spring 2020 forecasts



Appendix A – Income tax forecast

Personal income tax forecast

The updated personal income tax forecast is summarised in **Figure 1**. The forecast has been revised down since May, primarily due to updated data from Revenue Jersey from both 2018 and 2019.

Figure 1: Changes to personal income tax forecast since May 2020

£m	2018	2019	2020	2021	2022	2023	2024
Personal tax							
May 2020 forecast	453	480	446	480	519	561	585
New tax data	-6	-12	-10	-12	-13	-15	-16
New FPP assumptions	0	-1	-7	-10	-8	-8	-9
Updated HVR forecast	0	0	+1	+1	+1	+1	+1
Change to IFG adjustments	0	0	+5	+2	+1	-4	0
New forecast	447	467	434	461	500	534	561
<i>Change since May 2020 forecast</i>	-6	-13	-12	-19	-19	-27	-24

* Some columns may not sum due to rounding

The remainder of the note is set out as follows:

- Section 1 describes how the forecast is carried out
- Section 2 sets out the new economic assumptions and updates to tax outturn data
- Section 3 explains the IFG's adjustments to the forecast to account for the Covid-19 crisis
- Section 4 sets out the forecast

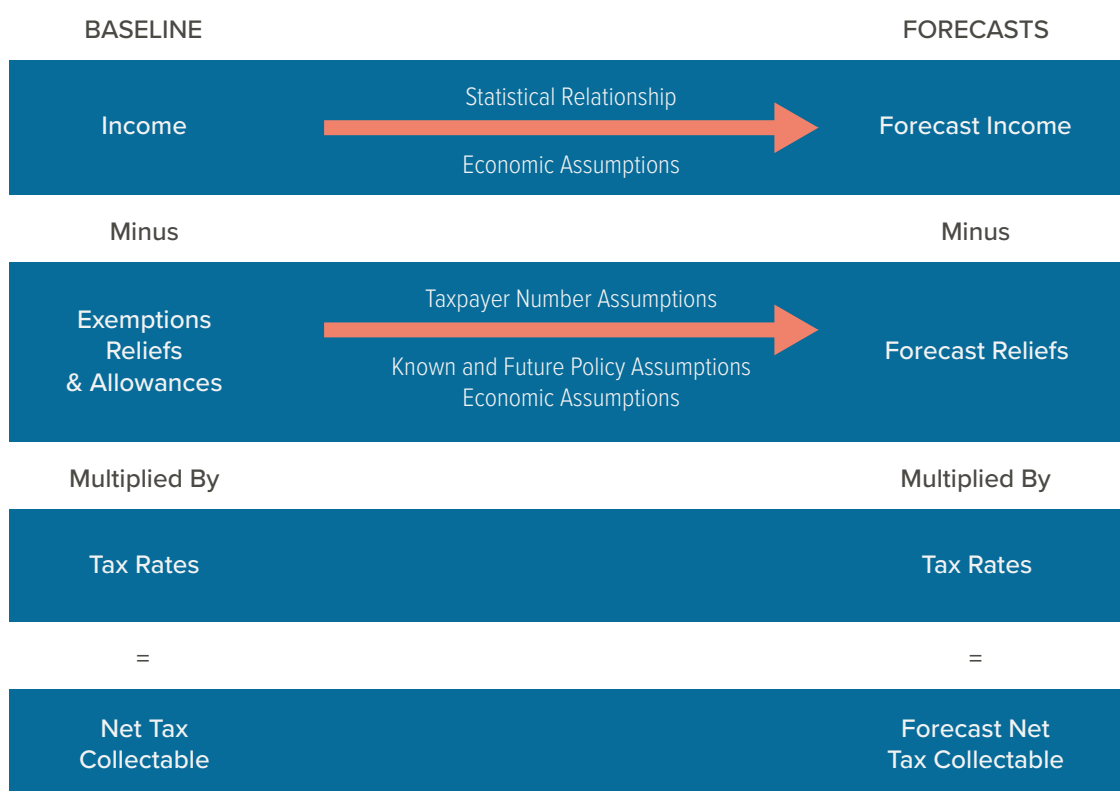
1 – How the forecast is carried out

An overview of the personal income tax forecasting model is shown in **Figure 2**. There are two main elements – forecasting taxable income and then forecasting the likely yield (i.e. tax collectable per £1 of taxable income) based on forecasts of the value of deductions (including exemption thresholds for marginal rate taxpayers, and the various reliefs, credits and allowances claimed by taxpayers). The forecast of tax collectable is therefore the product of the forecasts for taxable income and yield.

Taxable personal income is estimated over the forecast period by taking outturn data provided by Revenue Jersey and projecting it forward on the basis of statistical relationships between taxable income and various economic variables. The economic variables include compensation of employees (CoE), company profits, employment, average earnings, inflation and interest rates. Forecasts of these variables are overseen by the independent Fiscal Policy Panel (FPP).

The yield is then forecast by taking the baseline data for the value of deductions and forecasting changes in these in line with assumptions about future taxpayer numbers, inflation, interest rates and policy changes announced in previous Budgets and Government Plans. So, for example, the aggregate value of the basic exemption thresholds might be assumed to rise in line with the lower of RPI inflation and earnings (to represent the anticipated annual increase in the threshold), and employment growth (to represent the increase in taxpayer numbers claiming this threshold).

Figure 2: Model overview



2 – New economic assumptions and updated tax data

The Fiscal Policy Panel's (FPP) updated economic assumptions have been used in the model to update the income tax forecast. The economic assumptions were published in August 2020. The economic assumptions letter can be found at gov.je/fiscalpolicypanel

Updated information from Revenue Jersey

Personal tax assessments

A full breakdown of personal income tax assessments for the 2018 year of assessment is not yet available. There are some differences in the way that data are reported between the previous system (ITAX) and the new system (RMS) with the new system providing greater granularity between taxable income types. Revenue Jersey are working through the data to produce a consistent series of data from both systems on each of the income types reported on individual tax returns. At this stage, the priority has been producing consistent series for employment income and pension income, which represent around 80 per cent of total taxable income.

Based on this work, Revenue Jersey's analysis indicates that total income from employment grew by 4.6 per cent in 2018, compared to the 5.3 per cent growth assumed in the May 2020 IFG forecast. Pension income grew by 4.8 per cent, compared to the 7.5 per cent assumed in the May forecast.

This updated forecast continues to use 2017 as a base for the level of tax collected, but the actual growth rates in employment and pension income have been used to estimate the total amounts for each of these for 2018. The 2018 estimate therefore remains subject to some uncertainty.

Taxpayers on the high-value residency regime

Assessments have been completed for taxpayers on the high-value residency (HVR) regime. Revenue Jersey data show that £19.4 million was assessed for these taxpayers in 2018. As tax from these taxpayers is forecast separately, this has been incorporated into the forecast.

ITIS data

Revenue Jersey has provided a revised figure for growth in employment income reported through the Income Tax Instalment System (ITIS) for 2019. This indicates that employment income grew by 3.2 per cent in 2019. This has been incorporated into the forecast, rather than the 3.1 per cent growth that would be estimated by the equation that underpins the tax forecasting model.

3 – Adjustments to personal income tax forecast due to Covid-19 crisis

The personal income tax forecasting model is primarily based on estimates of the statistical relationships between economic variables and the tax base. This uses data over the last 20 years to forecast future tax receipts. While these statistical relationships are robust in the long run and in normal times, the IFG's previous forecast in May made a number of adjustments to these long-term relationships on the assumption that the collection of personal tax will diverge from the overall economic performance during the current period of economic distress and beyond.

Similar adjustments have been included in this forecast, but these have been revised to take account of the latest information. It is important to emphasise that these adjustments are in addition to the downward impact of the revised FPP economic assumptions. So, the statistical relationships will already account for some lower growth in taxable income – for example growth in taxable employment income will already be smaller because of the reduction in the FPP's forecast for growth in compensation of employees (CoE – the national accounts measure of aggregate earnings) since the beginning of the pandemic.

In each case, the adjustments are assumed to gradually reduce and fall away by the end of the forecast. Therefore, the forecast assumes that the tax base comes back into line with the economic variables, or into line with recent average growth rates for some of the smaller income types. There is a risk that the current economic disruption might result in a permanent adjustment to the relationship between economic variables and the tax base. Under the FPP forecast, the economy is smaller throughout the period, with a gradual recovery to a lower level, and this is considered sufficient to capture the impact on taxes in the medium term.

This is not intended to reopen the FPP forecast, but rather to seek to overlay additional impacts on the tax base. IFG judgement on these adjustments is set out below.

Employment income and other earned income (£2.3bn)

The IFG previously made a downward reduction to the forecast for employment income. This was due to the expectation that finance sector bonuses would be reduced, particularly in response to announcements from the Bank of England and European Central Bank urging financial institutions to show restraint with regard to bonuses. The expectation of lower bonuses has now been incorporated into the updated FPP economic assumptions and therefore this adjustment has been removed as it will already be captured by the model equations.

Figure 3: Impact of removing IFG adjustment to employment income

	2020	2021	2022	2023+
May IFG adjustment (%)	-1.5	-3	-1.5	0
Tax impact (£m)	-8	-17	-9	0
Revised IFG adjustment (%)	0	0	0	0
Tax impact (£m)	0	0	0	0
Change to IFG forecast (£m)	+8	+17	+9	0

In May, the IFG made a further adjustment to the average effective tax rate (i.e. the amount of tax collected per £1 of taxable income). While the Co-Funded Payroll Scheme (CFPS) was expected to reduce the number of redundancies that otherwise would have occurred, the IFG expected that there would still be temporary lay-offs, reductions in hours and reductions in hourly wages, thereby reducing taxable income but not reducing the allowances that can be set off against that income. This would drive down the average effective tax rate.

The CFPS does appear to have been successful in reducing job losses, and registered unemployment has fallen back from its peak. However, it now seems likely that there will be a prolonged period of reduced hours and earnings, particularly in non-finance sectors, and this has been incorporated into the FPP forecast for a slower recovery in total earnings. This will put further downward pressure on the average effective tax rate, and the downward pressure will last longer than previously expected.

Therefore, the IFG's judgment is that the average effective tax rate will be lower, particularly next year, and the adjustment has therefore been increased in each year to 2023. The adjustment falls away from 2024 onward.

Figure 4: Impact of revised IFG adjustment to average effective tax rate

	2020	2021	2022	2023
May IFG adjustment (percentage points)	-0.1	-0.05	-0.03	0.0
Tax impact (£m)	-3	-2	-1	0
Revised IFG adjustment (percentage points)	-0.25	-0.5	-0.25	-0.125
Tax impact (£m)	-8	-16	-9	-4
Change to IFG forecast (£m)	-5	-14	-8	-4

Pension income (£290 million)

The May forecast assumed that pension income would remain flat in 2020, equivalent to making a downward adjustment to the 2020 growth rate of 3.5 per cent. This was due to an expectation that, while pension income is driven in the long run by both demographic change and growth in earnings, there are one-off factors that may result in slower growth in the short term. Specifically, the fall in financial asset valuations will have resulted in a reduction in the size of many pension funds, which may in turn result in new pensions paying out a lower amount than might have otherwise been expected – and could in turn potentially lead to some deferral of retirement.

While financial markets have recovered partially, the IFG's view remains that there is likely to be limited growth in pension income this year. Therefore, an adjustment continues to be applied to reflect flat pension income in nominal terms this year. The updated FPP economic assumptions mean that the unadjusted growth rate is now 4.5 per cent (rather than 3.5 per cent in May) so a larger adjustment is required to bring this to zero.

Figure 5: Impact of revised IFG adjustment to pension income

	2020	2021	2022	2023+
May IFG adjustment (%)	-3.5	-1.8	-0.9	0
Tax impact (£m)	-3	-1	-1	0
Revised IFG adjustment (%)	-4.5	-2.3	-1.2	0
Tax impact (£m)	-4	-2	-1	0
Change to IFG forecast (£m)	-0.8	-0.4	-0.2	0

The adjustment falls away from 2023 onward as aggregate pension income is expected to return to following its long-run relationship with earnings and demographics.

Business profits (£160 million) and property income (£100 million)

In the absence of clear statistical relationships between the economic variables and taxable income in these categories, IFG has in the past assumed that this income grows in line with the respective recent average growth rates. Business profit (i.e. sole trader and partnership income) would therefore normally be forecast to grow at its five-year average rate (3.5 per cent per year) and property income at its 10-year average rate (6.9 per cent).

The IFG's May forecast made some adjustments to both of these. For business income, the adjustment was 30 per cent – in line with the implied fall in non-finance profits from the FPP economic assumptions. The implied fall from the FPP assumptions is now 21 per cent in 2020, therefore an adjustment of -25 per cent has been made (i.e. to reduce the 3.5 per cent growth close to a 21 per cent fall). As before, this adjustment is assumed to gradually fall away over three years.

Figure 6: Impact of adjustments to personal business profits

	2020	2021	2022	2023+
May IFG adjustment (%)	-30	-15	-7.5	0
Tax impact (£m)	-12	-6	-3	0
Revised IFG adjustment (%)	-25	-12.5	-6.25	0
Tax impact (£m)	-10	-5	-3	0
Change to IFG forecast (£m)	+2	+1	+0.5	0

For property rental income, the IFG previously made a downward adjustment of 15 per cent. The downward pressure remains, not least due to the impact of deferrals and waivers of rents. Therefore, the IFG adjustment is unchanged from May.

Investment and other unearned income (£100 million), shareholder income (£180 million) and income taxed at source (£20 million)

Investment and other unearned income includes a range of income, sources such as bank interest, dividends and investment income plus a number of smaller sources of income. This income is generally grown in the IFG forecast using an established statistical relationship with interest rates (specifically Bank Rate). Shareholder income is a separate category, taxed on distributions of locally owned companies. The volatile nature of shareholder income, and the recent history of policy changes made to taxation of this area, means that in the past the IFG forecast assumed that this income remains flat in real terms. Income taxed at source, while not a substantial amount, has also generally been assumed to be flat in real terms.

The FPP assumption for Bank Rate has fallen further since May, which will reduce the forecast for investment income. However, a further adjustment is still required to reflect the expectation that dividends and distributions will fall sharply as firms make significantly less profits and/or chose to retain more profits due to increased uncertainty over prospects. In addition, financial services firms make up a large proportion of global dividends and firms in this sector have been urged by regulators to reduce or suspend any dividend payments in the short term.

The May forecast made a downward adjustment of 20 per cent to investment income, distributions and taxed at source income. Developments since May suggest that a fall of approximately 20 per cent in each remains an appropriate judgement. This requires an adjustment of 16 per cent on investment income and an adjustment of 21 per cent on distributions and taxed at source, as set out below.

	Model approach	Unadjusted growth rate 2020	Adjustment	Adjusted growth rate 2020
Investment Income	Equation based on Bank Rate	-4%	-16%	-20%
Distributions	RPIY inflation	+1.5%	-21%	-20%
Taxed at source	RPIY inflation	+1.5%	-21%	-20%

Figure 7: Impact of adjustments to investment income, distributions and taxed at source

	2020	2021	2022	2023+
May IFG adjustment (%)	-20	-10	-5	0
Tax impact (£m)	-14	-7	-4	0
Revised IFG adjustment – investment income (%)	-16	-8	-4	0
Tax impact – investment income (£m)	-3	-2	-1	0
Revised IFG adjustment – distributions/TAS (%)	-21	-11	-5	0
Tax impact – distributions/TAS (£m)	-10	-5	-3	0
Change to IFG forecast (£m)	-0.3	-0.2	-0.5	0

Overall IFG adjustments

Overall, the impact of the IFG adjustments is slightly smaller in most years than it was in the May forecast. This is for two reasons:

1. The reduction in employment income due to constraint on financial services bonuses has now been reflected in the FPP economic assumptions and therefore no further adjustment is required
2. The FPP forecast for the fall in non-finance gross operating surplus (the national accounts measure of profits) remains strongly negative in 2020 but less negative than May. The negative adjustment IFG made to sole trader/partnership profits has therefore been adjusted

The upward impact of these is partially offset by an increase to the negative adjustment made on the average effective tax rate, and a larger downward adjustment to pension income. The aggregate impact of the IFG adjustments (i.e. the May adjustments plus the revisions made in this forecast) remains significant, as set out in **Figure 8**.

Figure 8: Aggregate impact of IFG adjustments (£m)

Adjustment	2020	2021	2022	2023+
Average effective tax rate	-8	-16	-9	-4
Pension income	-4	-2	-1	0
Profit	-10	-5	-3	0
Property	-4	-2	-1	0
Distributions and taxed-at-source income	-10	-5	-3	0
Investment and other unearned income	-3	-2	-1	0
Total	-39	-32	-17	-4
<i>Adjustments from May</i>	<i>-45</i>	<i>-36</i>	<i>-18</i>	<i>0</i>
<i>Change in impact of adjustments</i>	<i>+5</i>	<i>+3</i>	<i>+2</i>	<i>-4</i>

Note: The impact of the May adjustments in this table is based on the underlying/unadjusted forecast as it was in May. Applying the May adjustments to the current forecast may result in a smaller/larger impact.

4 – Updated personal income tax forecast

The personal tax forecast has fallen further in each year of the forecast. This is primarily due to updated data from Revenue Jersey relating to 2018 tax assessments (based on individual tax returns) and 2019 taxable income reported through ITIS (based on employer submissions). The revised FPP economic assumptions reduce the forecast further. However, as some of the factors driving the change in the FPP assumptions were already factored into the IFG's May forecast through the 'IFG adjustments' this means the impact of these adjustments reduces slightly in most years.

Figure 9: Changes to personal income tax forecast since May 2020

£m	2018	2019	2020	2021	2022	2023	2024
Personal tax							
May 2020 forecast	453	480	446	480	519	561	585
New tax data	-6	-12	-10	-12	-13	-15	-16
New FPP assumptions	0	-1	-7	-10	-8	-8	-9
Updated HVR forecast	0	0	+1	+1	+1	+1	+1
Change to IFG adjustments	0	0	+5	+2	+1	-4	0
New forecast	447	467	434	461	500	534	561
<i>Change since May 2020 forecast</i>	<i>-6</i>	<i>-13</i>	<i>-12</i>	<i>-19</i>	<i>-19</i>	<i>-27</i>	<i>-24</i>

* Some columns may not sum due to rounding

New tax data

The partial data for 2018 assessments have been used to update the growth rates of employment income and pension income for 2019. The updated assumption for the growth rate of employment income results in a £5 million reduction in the estimate for 2018. This is assumed to recur, with £5 million-£6 million reduction in each year of the forecast. Similarly, the updated assumption for the growth in pension income results in a reduction of £1 million-£2 million each year.

Further, the updated data have been used to re-estimate the equations used to forecast employment income and pensions. Growth in earnings, pension income and investment income are forecast using statistical relationships that are proven to be effective in explaining past growth rates. Estimates of these relationships are normally updated (i.e. re-estimated) when a new set of tax data are available. In this case only data for pension and employment income are available - re-estimating the equations used to forecast each of these results in small increase in the tax forecast for 2020 and 2021 but a reduction for 2023 and 2024.

Tax from taxpayers on the high-value residency scheme (HVRs) is forecast separately. Outturn data from Revenue Jersey indicate that the tax received from these taxpayers for 2018 was £1 million higher than the previous estimate, this higher tax is taken as a new baseline position and the increase therefore recurs in each year of the forecast.

The latest ITIS data for employment income in 2019 result in a reduction in the forecast of £5 million for 2019. This is assumed to be a recurring reduction and therefore the forecast is reduced by £5 million-£6 million each year.

New FPP economic assumptions

The new economic assumptions result in a reduction to the forecast in each year:

- The reduced FPP assumption for finance sector profits result in a reduction in the forecast for employment income. This is because statistical analysis demonstrates that growth in employment income can be explained by growth in both finance and non-finance earnings and also by profits in the finance sector (but not the non-finance sector). While the sensitivity of the forecast to changes in profits is relatively low (a coefficient of 0.07), the fall in the FPP assumption is very large and therefore results in a reduction to the forecast of £6 million-£7 million in 2020 and 2021. The FPP assumption is that finance profits will recover only partially and gradually.
- The outturn for FTE employment in 2019 results in an assumption that aggregate allowances/deductions will grow more quickly in 2019. However, sectoral analysis undertaken as part of the FPP forecast suggest that Compensation of Employees (CoE – a measure of aggregate wages in the economy) will not have grown as a result – as much of the FTE growth was in relatively low-paid sectors. This therefore reduces the forecast for 2019.
- The FPP assumption for CoE in 2020 is slightly stronger, therefore increasing the tax forecast by around £1 million. But going forward, the recovery in CoE is more gradual and this therefore has a downward impact on the tax forecast, reducing it by £4 million-£6 million in 2021-2024.

- Inflation is now assumed to be lower in 2021, which reduces the forecast for growth in allowances and therefore increases the forecast for tax by around £1 million from 2022 onward.
- Lower interest rates result in lower claims for mortgage interest tax relief, though this is partially offset by lower income from bank interest. The net impact is around £½m-£1 million additional tax in each year 2021-2023.
- The FPP assumptions now see house prices flat in 2020 and falling in 2021. This has a small impact on the forecast through the expected impact on mortgage interest tax relief.

New HVR forecast

Data have been received from Locate Jersey on expectations for the number of new HVR in 2020. The net impact of these is a small increase to the forecast from 2020.

IFG adjustments

The impact of the individual IFG adjustments is set out in section 3. The aggregate impact of the adjustments remains significant, with a £39 million reduction to the forecast in 2020, a £32 million reduction in 2021, £17 million in 2022 and £4 million in 2023.

However, the impact of the reductions is smaller in most years than the impact in May. This adds to the forecast for 2020-22 but reduces the forecast for 2023.

As stated above, the positive impact of the revisions to the IFG adjustments is due to the fact that the factors that justified some of the adjustments from May have now been incorporated into the FPP's economic assumptions.

Policy changes

Two policy changes were already reflected in the previous forecast and remain in this forecast:

- Revenue Jersey has estimated a reduction in personal tax of around £1 million from 2020 onward as a result of reduced distributions that may result from the extension of a positive rate of income tax to large corporate retailers³;
- An increase of around £3½million due to the decision to remove the higher child allowance from 2019 as part of the new higher education funding scheme.

As these are unchanged from the previous forecast, they do not appear in **Figure 8**.

³ There may be some lag in the reduction in personal income tax due to this change, as distributions of profits that arose before 2018 but distributed in 2018 or later will not benefit from the tax credit. However, the most likely profile of this reduction is difficult to predict and therefore it has been assumed to be £1.2m in 2020, growing in line with whole economy profits thereafter.

Corporate income tax forecast

Figure 10 summarises the corporate tax forecast. The forecast has increased since May, primarily due to outturn data from Revenue Jersey.

Figure 10: Changes to corporate tax forecast since May 2020 forecast

£m	2019	2020	2021	2022	2023	2024
Corporate tax						
May 2020 forecast	114	115	90	101	105	112
Revised outturn	+5	+2	+2	+2	+2	+2
In-year data		+3	+3	+3	+3	+3
Revised to financial services forecast		0	+3	-1	+1	+2
Revisions to other sectors		0	-1	-2	-3	-6
September 2020 forecast	118	120	97	103	108	113
<i>Change since May 2020 forecast</i>	+5	+5	+7	+2	+3	+1

* Some columns may not sum due to rounding

Updated information from Revenue Jersey

Revenue Jersey has provided an update to the outturn for 2019. This suggests that tax from financial services firms was around £4 million higher than previously estimated, with the increase due to a small number of firms where the assessment was higher than the estimate. However, £3 million of this is expected to be a one-off increase and therefore only a small amount of the increase since May will be carried into future years. The estimated tax from corporate taxpayers outside financial services has increased by around £1 million.

Revenue Jersey has also considered in-year data using the payment-on-account made by corporate taxpayers for the 2019 year of assessment. The first instalment of 50 per cent was due in March/May and, based on analysis of payments by some large taxpayers in financial services, Revenue Jersey estimates that around an additional £3 million would be expected this year, on the basis of in-year data, and this is assumed to recur in future years.

Updated forecast

Financial services

The forecast is now assumed to follow the FPP forecast for financial services profits. This differs from the last IFG forecast where an adjustment was made to take account of recent cuts in benchmark interest rates and an expectation interest rates would remain lower for longer. Leading to markedly lower banking profits in particular.

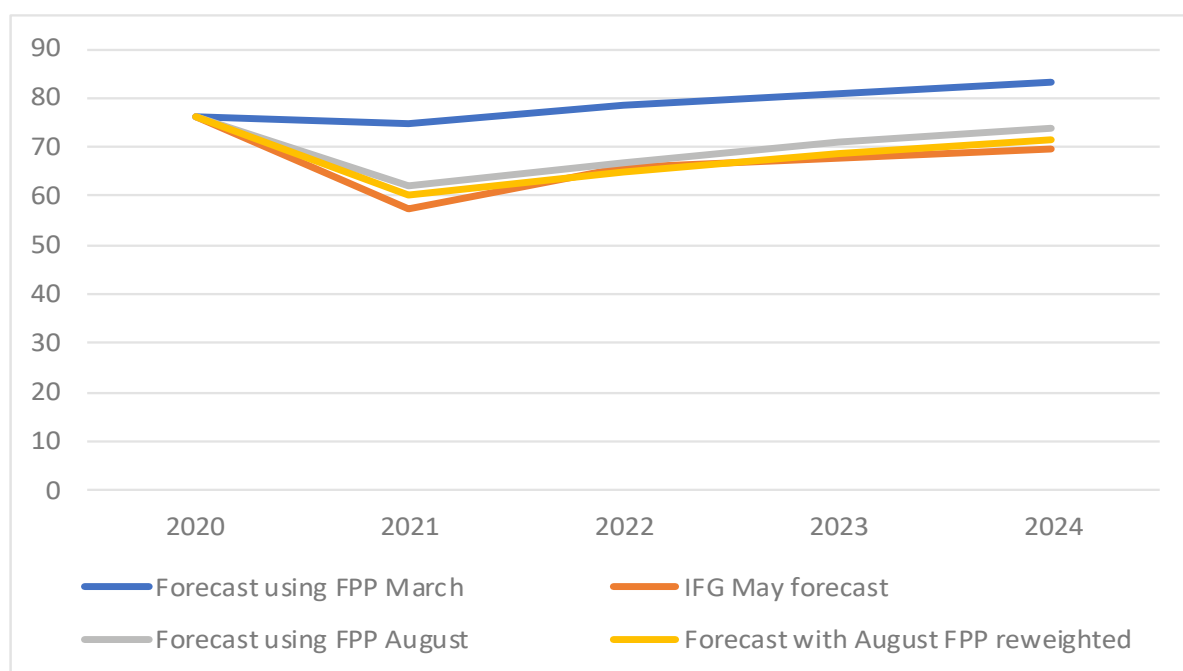
As the March FPP forecast was finalised around the time of the cuts in UK benchmark rates, these cuts were not fully factored into the FPP forecast for

financial services profits. And the outlook for interest rates has deteriorated since then. On the basis of the latest outlook for interest rates and discussions with the financial services sector, the FPP has revised its financial services profit forecast sharply downward, bringing it closer to the forecast used by the IFG in May.

The FPP forecast for financial services profits covers the whole financial services sector, rather than just those sectors that are subject to corporate tax. Reweighting the 2020 forecast leads to a steeper fall in profits for the corporate tax-paying finance sector (as banking now has a greater weight) of 21.3%, rather than the 18.6% the FPP forecast for the whole sector.

Using the reweighted FPP assumption for 2020 and the FPP assumption thereafter results in a slightly less steep decline in profits this year (and tax next year), but a slower recovery such that tax in later years is broadly unchanged from the previous IFG forecast:

Figure 11: Forecast corporate tax from financial services (£m - budget year)



Note: tax is collected one year in arrears, so tax in 2020 relates to profits in 2019

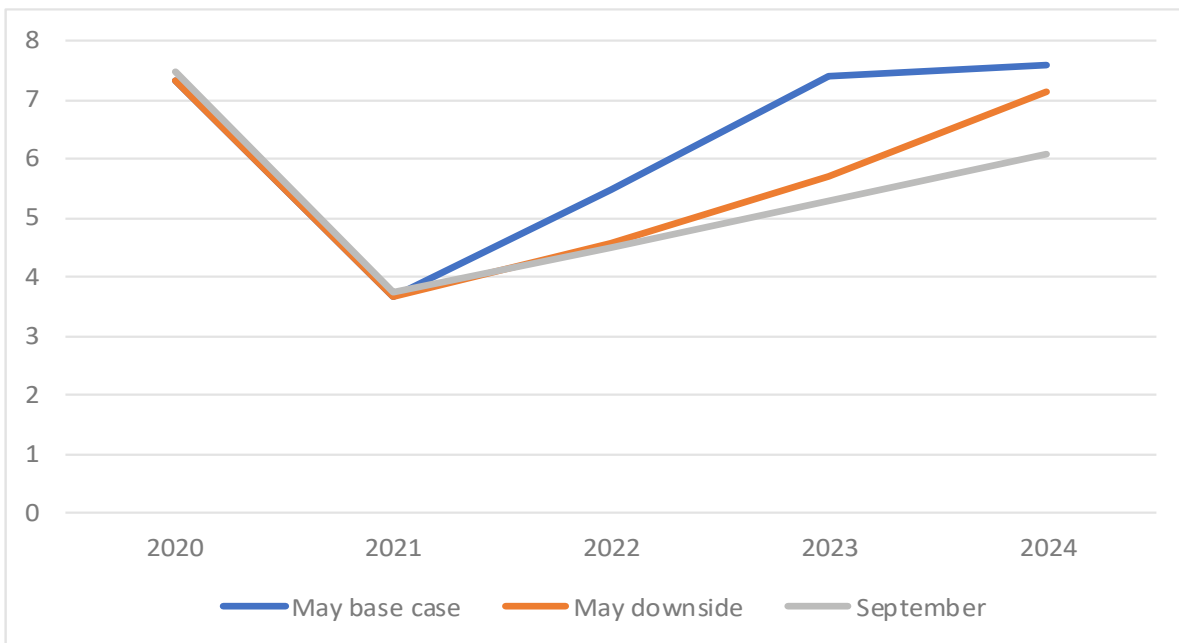
Large corporate retailers

The May IFG forecast included significant falls in profits in large corporate retailers in 2020 and therefore a large reduction in corporate tax from this sector in 2021. In the base case forecast, this loss of tax was gradually recovered over two years, by 2023, while in the downside forecast the recovery was slower with the loss of tax not recovered until 2024.

The updated forecast assumes that the recovery is slower than the previous base case, this reflects an assumption that the economy (in particular total wages) will

recover more gradually, in line with the updated FPP forecast. But it also assumes a larger permanent reduction, which reflects the potential for some of the recent shift to online shopping to be permanent. This is consistent with the GST forecast, which assumes a permanent reduction in GST due to increased household importation through the internet.

Figure 12: Forecast corporate tax from large corporate retailers (£m - budget year)



Note: tax is collected one year in arrears, so tax in 2020 relates to profits in 2019

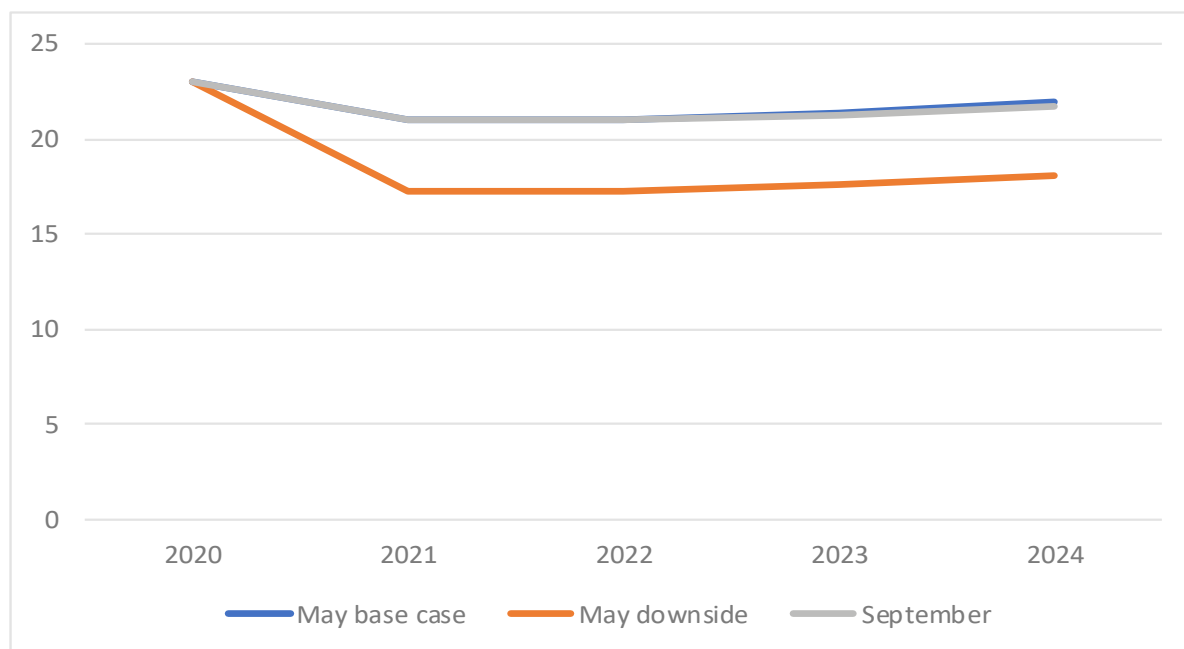
Property

The previous IFG base case forecast assumed that 2020 property income subject to corporate tax followed the same path as property income subject to personal tax. The downside saw a much sharper fall to a permanently lower level.

The IFG’s view is that the factors driving the base case forecast from May remain valid and both office and retail rents and occupancy will be under pressure throughout the forecast period. Therefore, as in May, the revised forecast for 2021 follows the forecast for rental income in the personal tax forecast in 2020 – i.e. a fall of 9 per cent.

Beyond 2021, any recovery is very uncertain. Therefore, the forecast assumes no increase in nominal terms in 2022 and thereafter following inflation. This is the same approach taken by IFG in May – though the updated FPP assumption for inflation is a little lower so the forecast is reduced by a small amount.

Figure 13: Forecast corporate tax from property rental and development (£m - budget year)



Note: tax is collected one year in arrears, so tax in 2020 relates to profits in 2019

Other corporate tax

Other corporate tax is from utilities, oil, mining and a few other small areas. It represented around 7 per cent of corporate tax revenues in 2018 (£m) and therefore the overall corporate tax forecast is not particularly sensitive to changes in the growth rate applied to income for these firms.

This forecast previously assumed that tax from these firms followed the FPP assumption for growth in finance sector profits in the year previous, as tax is collected based on profits in the year before. This has been amended slightly for this forecast so that income rises in line with the FPP forecast for the overall level of gross operating surplus in the economy (a measure of total profits in finance and non-finance, including the rental income of private households). The forecast for large corporate retailers has also been amended to use this figure for tax in 2020.

Figure 14: Assumptions used in corporate tax forecast

% growth rate	2020	2021	2022	2023	2024
Financial services	2.0	-21.3	8.0	6.0	4.0
Property	-2.0	-9	0	1.4	2.3
Large corporate retailers	4.3	-50	20	17.5	15
Others	4.3	-12.9	7.1	3.2	2.6

Note: tax is collected one year in arrears, so tax in 2020 relates to profits in 2019

Figure 15: Forecast of corporate tax in key sectors (£m)

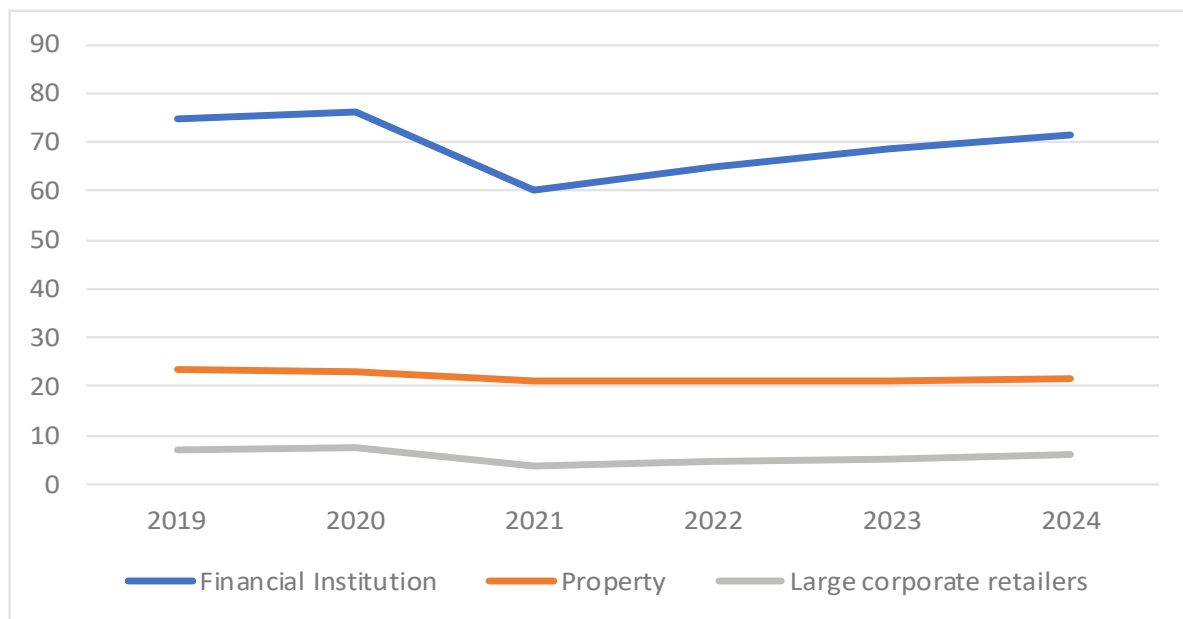


Figure 16 sets out the new forecast in comparison to the previous IFG forecast. The revised outturn and in-year data result in small increases to the forecast. The revised FPP economic assumptions result in a small increase to the forecast for tax from financial services in most years, though a small reduction in 2022. The IFG's revised forecast judgements for other sectors result in less tax in each year.

Figure 16: Corporate tax forecast

£m	2019	2020	2021	2022	2023	2024
Corporate tax						
May 2020 forecast	114	115	90	101	105	112
Revised outturn	+5	+2	+2	+2	+2	+2
In-year data		+3	+3	+3	+3	+3
Revised to financial services forecast		0	+3	-1	+1	+2
Revisions to other sectors		0	-1	-2	-3	-6
September 2020 forecast	118	120	97	103	108	113
<i>Change since May 2020 forecast</i>	+5	+5	+7	+2	+3	+1

* Some columns may not sum due to rounding

Impact of Covid-19 on the forecast

In both the May forecast and this revised forecast, the IFG has split the corporate forecast into sectors so that the differential impact of the Covid-19 pandemic can be incorporated into the overall forecast. **Figure 17** shows how the forecast for each sector has changed as a result of this new sectoral approach and the changes made to account for the impact of the pandemic. This demonstrates that the adjustments made since October 2019 to the forecast sectoral tax growth rates has reduced the corporate forecast by £27 million in 2021, £24 million in 2022 and £23 million in 2023.

The impact is greatest on tax from the financial services firms, though this is to be expected as financial services is responsible for the majority of corporate tax. This change is due to a sharp reduction in the FPP's assumption for financial services profits in 2020. Other sectors have smaller impacts in absolute terms but still large in proportionate terms. The reduction in the forecast for these sectors is due to the sector-by-sector approach taken by IFG to account for the impact of the pandemic on each.

Figure 17: Impact of revisions to sectoral forecast since October 2019 (£m – budget year)

	2021	2022	2023
Financial services	-19	-16	-15
Property	-3	-3	-4
Large corporate retailers	-4	-3	-3
Others	-1	-1	-1
Total	-27	-24	-23

Note: This is the impact of the changes to growth rates from 2021 onward (i.e. relating to profits from 2020 onward), relative to what the forecast would be using the growth rates for corporate tax as a whole in October 2019. This does not take into account the increase to the forecast as a result of outturn or in-year data (around +£6 million in each year).

Appendix B – GST forecast

GST forecast note

This note sets out a provisional forecast of Goods & Services Tax (GST) for the Income Forecasting Group's (IFG) consideration. This updated forecast is based on new economic forecasts published by the Fiscal Policy Panel (FPP) in August 2020. The previous forecast in March 2020 included an extensive analysis of likely impacts of Covid-19, and the consequent restrictions on economic activity, on the GST forecast. Much of the analysis and that assessment remains valid so this forecast is an incremental revision that largely reflects the impact of changes to the economic forecast.

This note repeats much of the material contained in the March 2020 GST forecast note for IFG, but it is better to have all the material in a self-contained note as compared with a shorter note highlighting only changes to the forecast that would need to be read in conjunction with the March 2020 note.

The remainder of the note is set out as follows:

- Section A1 describes how the forecast is carried out
- Section A2 outlines the new economic assumptions
- Section A3 sets out the new forecast
- Section A4 covers the uncertainties and risks to the forecast
- Section A5 concludes.

A1 How the forecast is carried out

Goods & Services Tax ("GST") was introduced in 2008 and is collected by Revenue Jersey. GST is collected from purchases of goods and services in the Island, and some imports from off-island. Initially introduced at three per cent, the GST rate was increased to five per cent in June 2011 with an effective rate of four per cent for 2011 overall.

There are three components to GST receipts:

- "Normal" GST (i.e. spend on Island)
- Import GST (i.e. imports from off the Island)
- International Services Entity ("ISE") fees

Normal GST refers to purchases made in the Island and, as such, would typically refer to purchases by households. These receipts were around £77.5 million in 2018 and accounted for 84% of the total.

Import GST is paid on the importation of high-value goods directly, these receipts are volatile and in 2018 were £5.8 million and a little over 6% of the total.

ISE fees are paid by the financial services sector in Jersey and have been broadly stable at around £9 million since 2011, which accounts for 10% of the total.

The IFG considered as part of its draft MTFP 2016-2019 (June 2015) forecasts, changes to the forecast modelling of GST. The previous assumptions to increase GST forecasts by RPI were replaced by assumptions reflecting information on general trends in GST relative to the overall economic situation. Specifically, the IFG agreed forecast methodology was:

- For years in which real economic growth is being predicted by the FPP: increase “normal” GST revenues by 2%; and
- For years in which real economic growth is not being predicted by the FPP: increase “normal” GST revenues by 0.8%
- Import GST used a five-year rolling average of growth rates
- ISE fees are held flat at the latest outturn.

This methodology is relatively crude, and simple comparison against an alternative model that forecast growth in GST with growth in Compensation of Employees (CoE) suggested the potential for a marked improvement.

To illustrate the relative performance of the two methods, simplifying assumptions are made here:

- It is assumed the sum of normal and import GST grows at either 2% or 0.8% rather than normal GST only. This is because it would require a great deal of additional work to obtain an historical import GST series. In any event since import GST is currently just 6% of total GST this simplification would not significantly change the result
- The evaluation is against historical outturns and is conditional on the economic determinant (CoE). Simply put when the economy is growing it is better to simply assume a 2% increase in GST or have a forecast consistent with the economy forecast conditional on the forecast for CoE being true
- The agreed existing forecast methodology does not cover explicitly how to model a change in the rate of GST. So, the method is extended to assume that the increase in revenue is proportional to the change in the rate e.g. an increase from 3% to 4% would mean, all else equal, an increase of 33% (4/3) in the revenue.

GSTX is defined as normal GST plus import GST or equivalently GST excluding ISE fees, and so the agreed forecast methodology when the economy is growing i.e. growth in real GVA is positive can be set out as:

$$\text{GSTX}_{t+1} = \text{GSTX}_t * (\text{GST_RATE}_{t+1} / \text{GST_RATE}_t) * (1 + 2\%)$$

where GSTX_t = the latest outturn for GSTX receipts at time t

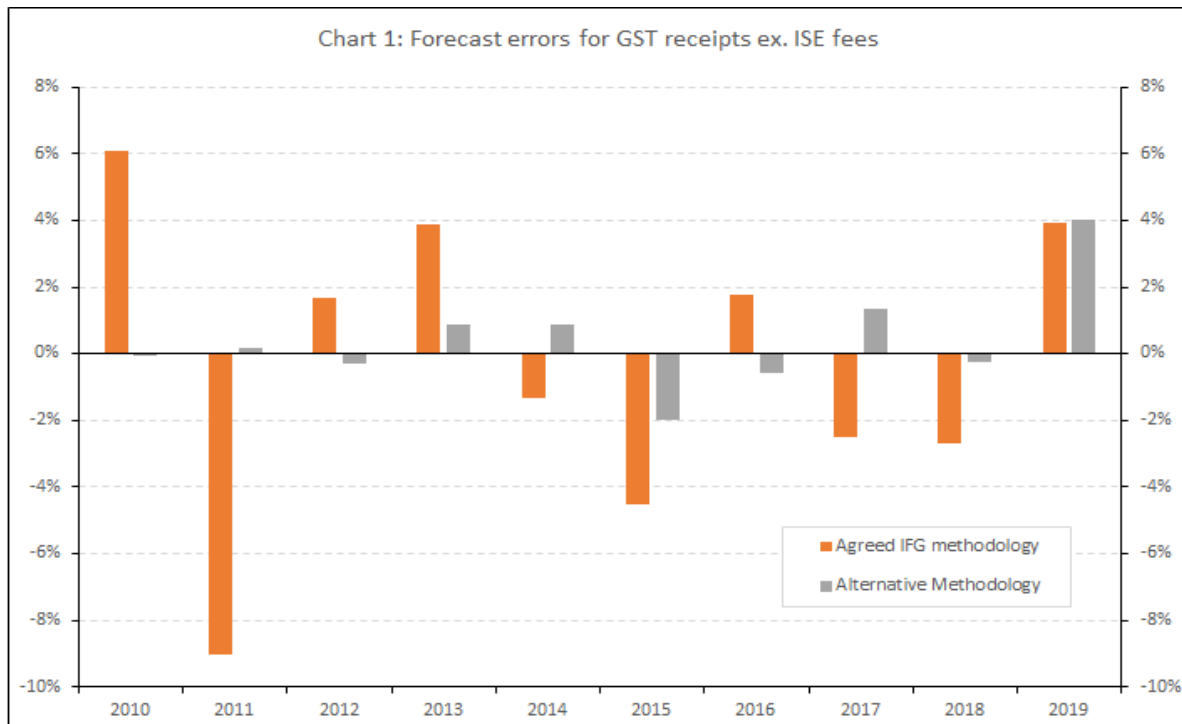
GSTX_{t+1} = the forecast for GSTX receipts following the outturn

GST_RATE = the rate of GST in the outturn period and forecast period

The alternative method forecasts GSTX given CoE i.e. instead of assuming a growth rate of 2% or 0.8% it is the growth in CoE that drives the growth in GSTX, the details of this method are set out following a comparison of the two methods. A comparison of one-year ahead forecast errors is set out in the chart below.

It is notable that both methods have large forecast errors in 2015 and that Jersey hosted the ‘Island’ games in that year which would have brought additional expenditure on-island by visitors.

Moreover, the latest outturn for GSTx in 2019 is markedly lower than would be expected. After growth in GSTx of around 4.5% in 2017 and 2018, GSTx fell by a little under 2% in 2019. Outturn data for CoE in 2019 is not available but conditional on the FPP forecast for CoE growth in GSTX for 2019 was forecast to be a little over 2%. A fall of 2% in 2019 compared with a forecast for a rise of 2% means the forecast error was +4%. The fall in GSTx revenues is at odds with the performance of the Jersey economy in 2019, and would be consistent with a fall in CoE that seems unlikely given wider indicators including business surveys.



The chart illustrates that the errors for the ‘Agreed’ or old methodology are much larger than the ‘Alternative’ i.e. new method. The error in 2011 is particularly large but receipts growth was exceptionally strong: GSTX receipts rose from £39 million in 2010 to £57 million in 2011 when the rate of GST rose from 3% to 4%. However, the growth in GSTX even after accounting for the rate change was still exceptionally strong at more than 10%, the Alternative method explains this growth by changing the coefficients in the model used to explain the growth in GXTX whereas the agreed methodology is constrained to use growth of 0.8% as growth in real GVA was negative in 2011. As is often the case in considering the average forecast error, large negative forecast errors can be partly offset by large positive forecast errors, so it is useful to consider the average absolute forecast error that ignores the sign (positive or negative) of the error. The table below sets out the forecast errors of the two methods, it shows that the average absolute forecast errors for the Agreed method are five times larger than the Alternative method, and still four times larger after excluding 2011.

The IFG agreed to review the modelling assumptions applied in the GST forecast in advance of the completion of the next full forecast (i.e. spring 2020), to determine whether the assumptions could be improved. The next section of the paper sets out the new 'Alternative' method for forecasting GST the results of which are shown in the table above.

Table 1: Comparison of forecast methods for GST receipts excluding ISE fees

	Actual, £m	Forecast, £m		Forecast error, %		Forecast error, £m	
		Agreed	Alternative	Agreed	Alternative	Agreed	Alternative
2010	38.7	41.0	38.6	6.1%	-0.1%	2.3	0.0
2011	57.1	52.0	57.2	-9.0%	0.2%	-5.1	0.1
2012	70.7	71.9	70.5	1.7%	-0.4%	1.2	-0.3
2013	68.6	71.3	69.2	3.9%	0.8%	2.7	0.5
2014	71.0	70.0	71.6	-1.3%	0.9%	-0.9	0.6
2015	75.8	72.4	74.3	-4.5%	-1.9%	-3.4	-1.5
2016	76.0	77.3	75.6	1.8%	-0.4%	1.3	-0.3
2017	79.5	77.5	80.8	-2.5%	1.7%	-2.0	1.3
2018	84.6	81.1	83.5	-4.1%	-1.3%	-3.5	-1.1
2019	82.1	86.3	85.3	5.1%	3.9%	4.2	3.2
Average 2010-2018				-0.9%	-0.1%	-0.83	-0.07
Average absolute value				3.9%	0.9%	2.51	0.64
Average excluding 2011				0.1%	-0.1%	-0.29	-0.10
Average absolute value				3.2%	0.9%	2.18	0.71

GST receipts are a product of the GST rate and the expenditures on which GST is liable

$$T = t * C \quad [1]$$

T = GST receipts excluding ISE fees

t = GST rate i.e. 5%

C = GST expenditures, broadly equal to around 2/3 of household consumption, $C = T/t$

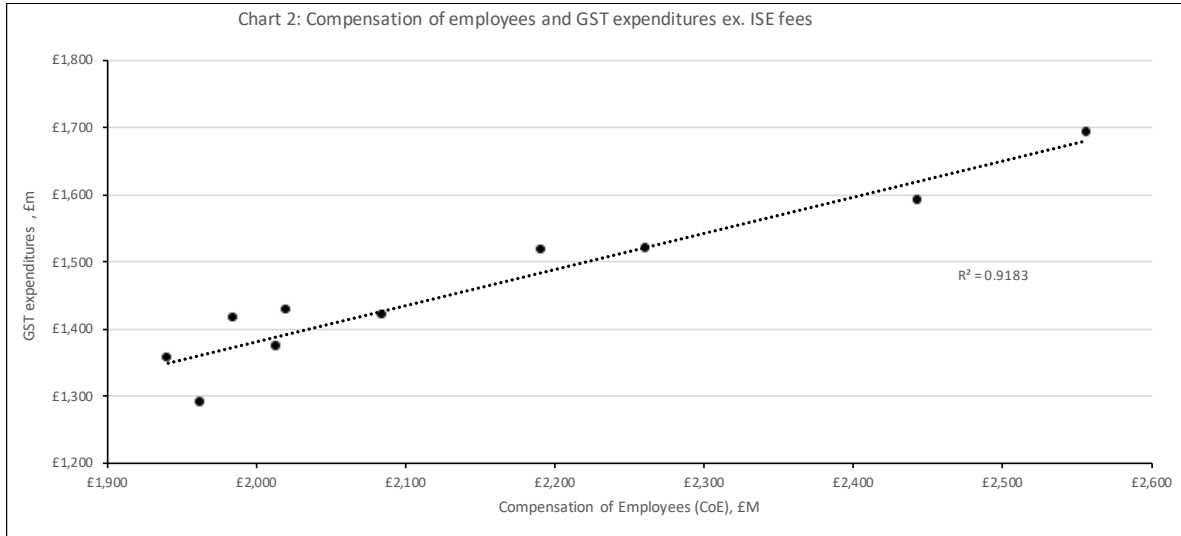
Consumption generally rises directly with income, and the largest part of income for the household sector is income from employment. It is therefore reasonable to use the compensation of employees as a proxy for total household income and hence a key determinant of household consumption.

$$C = c * CoE \quad [2]$$

c = the proportion of CoE that is spent on goods and services liable to GST

CoE = Compensation of Employees

In this context it is assumed that ISE fees are driven by different factors than normal and import GST so GXTx is defined as GST excluding ISE fees. As a first step GST expenditures excluding ISE fees i.e. C above is compared against CoE for the years 2009-2018.



As expected GST expenditures generally rise with income, so the higher the Compensation of Employees (CoE) the higher the expenditure on which normal and import GST is paid and vice-versa so when CoE is lower so are GST expenditures. The coefficient of determination or R² of 0.9128 estimates the fraction of the variance in GST expenditures that can be explained by a simple linear relationship using CoE.

In simple terms this means that GST expenditures and hence receipts can largely be explained by CoE, and given a forecast for CoE as an ‘economic determinant’ then conditional on that forecast for CoE a good forecast for GST can be estimated. The next section sets out the estimation of such a model.

$$T = t * c * CoE \quad \text{substituting [2] in to [1]} \quad [3]$$

$$\ln(T) = \ln(t) + \ln(c) + \ln(CoE) \quad \text{taking logs} \quad [4]$$

The model [4] can be estimated by standard Ordinary Least Squares (OLS) regression. The model is unrestricted in that lags of up to one year are allowed for in estimation and the ‘best’ model among all the possible permutations is taken. NB the ‘regressor’ INPT is a constant term in the regression.

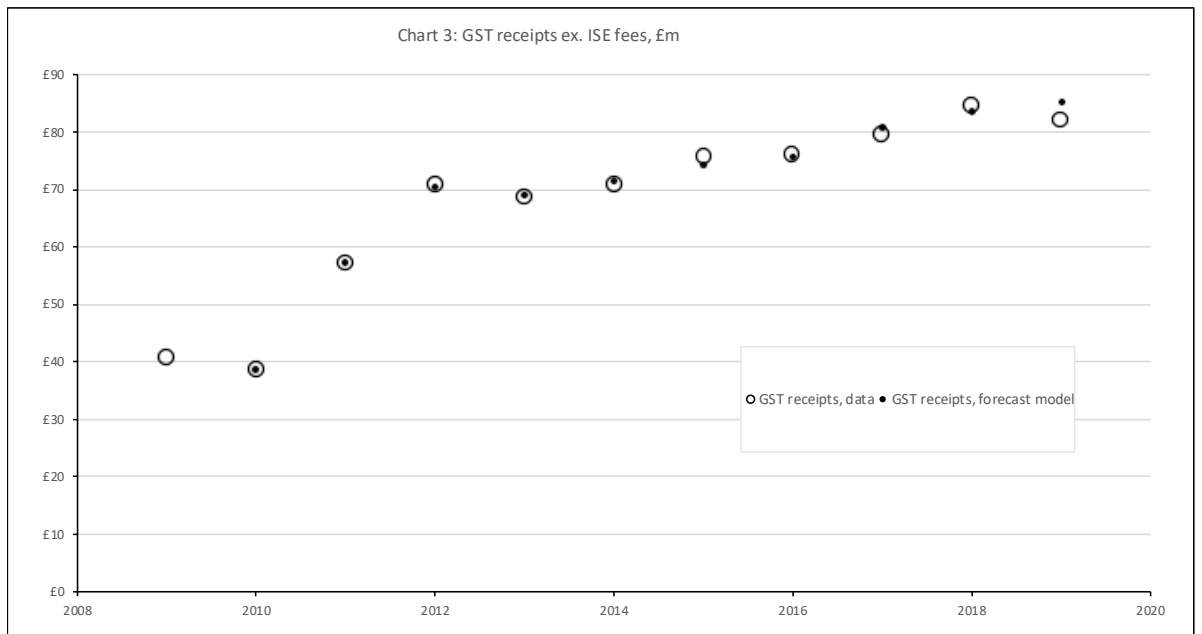
Selected results are shown below:

GST model estimated in Microfit

```

*****
Dependent variable is GSTX [variables in natural logarithms]
9 observations used for estimation from 2010 to 2018
*****
Regressor      Coefficient      Standard Error      T-Ratio[Prob]
GSTX(-1)       -0.14244         .037926             -3.7558[.013]
COE            0.83664         .067110             12.4667[.000]
GST_RATE       1.2541          .047940             26.1608[.000]
INPT          2.2363          .45630              4.9010[.004]
*****
R-Squared      .99821           R-Bar-Squared      .99713
S.E. of Regression .012595         F-Stat.  F(3,5)     927.5619[.000]
*****
    
```

This statistical model is very robust and provides an excellent ‘fit’ to the data. The lagged term on GSTx captures the dynamics between the income of households and their spending. The econometrics of this model are not discussed further but a fuller set of results is contained in the Annex. The performance of the forecasting model is shown in the chart below.



The forecast model is derived from a well-structured theoretical model that is borne out empirically i.e. it explains the data. All variables are correctly signed and provide a clear intuition e.g. it implies that on average in due course that expenditure on goods and services that are liable to GST is equal to around three quarters the Compensation of Employees (CoE). The historical forecast performance given outturn CoE and the forecast conditional on the FPP forecast for CoE in 2019-24 is shown in the table below:

Table 2: GST receipts excluding ISE fees (GSTx), £m

	Actual	Forecast	Forecast error		Growth rates	
			%	£m	Actual	Forecast
2009	40.7					
2010	38.7	38.6	-0.1%	-0.03	-5.0%	
2011	57.1	57.2	0.2%	0.12	47.7%	48.1%
2012	70.7	70.5	-0.4%	-0.29	23.9%	23.2%
2013	68.6	69.2	0.8%	0.53	-3.0%	-1.8%
2014	71.0	71.6	0.9%	0.61	3.4%	3.5%
2015	75.8	74.3	-1.9%	-1.46	6.8%	3.9%
2016	76.0	75.6	-0.4%	-0.33	0.2%	1.7%
2017	79.5	80.8	1.7%	1.31	4.6%	6.8%
2018	84.6	83.5	-1.3%	-1.12	6.4%	3.3%
2019	82.1	85.3	3.9%	3.17	-2.9%	2.2%
2020		85.2				3.8%
2021		85.8				0.7%
2022		88.1				2.6%
2023		90.1				2.3%
2024		92.2				2.3%
Average 2010-2018			-0.1%	-0.07		
Average absolute value			0.9%	0.64		

It should be noted that the new method aggregates normal and import GST whereas previously import GST was forecast as a five-year rolling average. Import GST is volatile but given the accuracy of the new method that forecasts normal and import GST as a total it is not proposed to forecast import GST separately. If IFG decided it would be worth forecasting Import GST separately further work would be required to evaluate the forecast accuracy of this approach.

A2 New economic assumptions

The Fiscal Policy Panel's (FPP) updated economic assumptions (**Figure 18**) have been used in the model to update the GST forecast.

Figure 18: FPP economic assumptions August 2020 (% change, unless otherwise stated)

% Change unless otherwise specified	2017	2018	2019	2020	2021	2022	2023	Trend 2024+
Real GVA	0.8	1.4	0.6	-7.5	3.0	1.9	1.1	0.6
RPI	3.1	3.9	2.9	1.3	1.5	2.4	2.5	2.6
RPIY	3.2	3.6	2.6	1.5	1.4	2.3	2.4	2.5
Nominal GVA	4.1	5.9	3.9	-6.3	3.9	3.2	2.9	3.1
Gross operating surplus (including rental)	-0.3	7.5	4.3	-12.9	7.1	3.2	2.6	3.2
Financial Services Profits	-6.4	9.6	2.0	-18.6	8.0	6.0	4.0	3.4
Compensation of Employees (CoE)	8.1	4.6	3.6	-0.6	1.5	3.2	3.1	3.1
Financial Services CoE	10.0	2.5	3.3	3.0	0.0	2.7	2.9	3.1
Non-finance CoE	7.0	5.8	3.7	-2.6	2.4	3.4	3.2	3.1
Employment	2.3	1.4	1.2	-1.6	1.2	0.9	0.6	0.4
Average earnings	2.6	3.5	2.6	0.3	1.1	2.3	2.5	2.7
Interest Rates (%)	0.3	0.6	0.8	0.2	-0.1	-0.1	-0.1	0.0*
House Prices	2.9	7.1	7.0	0.0	-2.0	2.7	2.7	2.7
Housing Transactions	7.8	5.3	-1.8	-20.0	10.0	1.5	1.5	1.5

*Bank Rate Forecast for 2024 Only

Note that the GST forecast uses only the forecast for Compensation of Employees (CoE). In 2020 CoE falls by less than the sum of the growth in average earnings and employment in 2020, whereas typically the growth in CoE is broadly equal to the sum of the growth in average earnings and employment. This is because the falls in employment are concentrated in non-finance that has much lower average earnings than the finance sector. However, the economic model for GST includes an implicit model for consumer spending that will not be applicable in 2020 due to the 'lockdown' measures put in place to combat the global pandemic Covid-19. The hospitality industry i.e. hotels, restaurants and bars were closed along with many other industries, including non-food retailing from late March.

To estimate the impact of closures on revenues and hence GST receipts a judgement is made over what proportion of typical revenues will be received in each month through 2020. For example, it might be assumed that hotels will have no revenue from April to September. Two scenarios are considered for lockdown: the central scenario is for lockdown of three months followed by recovery over three months, while the more severe scenarios is for lockdown of five months followed by recovery over two months. These scenarios are identified as 3+3 and 5+2 respectively.

For each scenario four categories are identified with differing severity: Red, Amber, Green and Essential; Green and Essential industries are those sectors broadly unaffected directly by Covid-19 or providing critical services that will be maintained through the crisis. This judgement can be applied to detailed industries within the broader sectors for the Standard Industrial Classification 2007 (SIC07). For example, the 'sale of motor vehicles' can be identified within the sector 'G - Wholesale and Retail Trade'.

The monthly profile and consequent annual impact under the two scenarios are set out below:

Impact of Covid-19 on revenues 2020

Severity	2020	Revenue proportions: 3+3 scenario											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Red	58%	100%	100%	50%	0%	0%	0%	25%	50%	75%	100%	100%	100%
Amber	79%	100%	100%	75%	50%	50%	50%	50%	75%	100%	100%	100%	100%
Green	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Essential	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Severity	2020	Revenue proportions: 5+2 scenario											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Red	48%	100%	100%	50%	0%	0%	0%	0%	0%	50%	75%	100%	100%
Amber	69%	100%	100%	75%	50%	25%	25%	25%	50%	75%	100%	100%	100%
Green	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Essential	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

The assumptions over monthly revenue through 2020 imply that revenue in ‘Red’, ‘Amber’, ‘Green’ and ‘Essential’ will be 58%, 79% and 100% of normal through 2020 overall under 3+3.

GST receipts are only readily available by broad sector e.g. Wholesale and Retail Trade for 2018, and these are then apportioned using Full-Time Equivalent (FTE) employment for June 2019 to the detailed industries. **Table 3** illustrates these judgments and estimates for the sector ‘Wholesale and Retail trade’. On this basis revenue and hence GST receipts in Wholesale and Retail is expected to be 23% lower than normal through 2020 under 3+3.

This method is extended to all sectors that expected to be significantly affected by the lockdown brought about by Covid-19, notably Construction along with accommodation and food services activities. The summary results for all sectors are shown in **Table 4** and show that in aggregate across all sectors GST receipts would, all else equal, be expected to be 17% lower than would be expected in a ‘typical’ year without a lockdown under 3+3. Under the 5+2 scenario receipts would be 23% lower.

A3 Updated GST forecast

The GST forecasts are set out in the attached **Table 5** comparing the Base and Revised March 2020 forecasts with the forecasts in the Government Plan 2019-23. The base forecast is the forecast for GST receipts that would be expected taken as given the FPP forecast for Compensation of Employees (CoE). However, as discussed, the lockdown means that sales, revenues and hence GST receipts will be markedly lower in 2020. The expected decline in GST receipts e.g. 17% due to the 3+3 lockdown is then applied to the base forecast for GSTx to provide a 'Revised' forecast; the 5+2 scenario provides a downside forecast.

Note that all forecasts include the proposed revenue 'measure' to reduce from £240 to £135 of the 'de-minimis' value of goods that can be imported before taxes i.e. GST becomes payable. This is forecast to raise £800,000 in a full year of implementation. Conceptually the value of this measure would, all else equal, rise with nominal expenditure but for simplicity it is held constant.

There are a number of unusually difficult judgements around forecasting the effects of the lockdown on GST, potential effects on forecast are noted in brackets:

1. In estimating the revenue loss for 2020 all months have an equal weighting. In practice the months of the potential lockdown e.g. Apr-Sep are peak seasonal months for tourism and hospitality and so should have a higher weight in deriving the annual figure. (Lower)
2. While hotels, bars and restaurants are closed, households may be increasing their consumption of alcohol and food at home. Alcohol duties that depend on the volume of alcohol would be less affected than GST that depends on the value of expenditure. Although a home-cooked meal would be likely to involve lower expenditures than a meal outside the home, there will be increased expenditures on food and alcohol – in addition to any stockpiling that would probably be neutral over the year. (Higher)
3. Some consumption such, as durable goods, would likely simply be delayed while retail outlets are closed, and there would be higher sales with a 'catch-up' when these stores reopen. Consumption of other goods and services, such as food and alcohol, is less easily postponed, although there would be expected to be increased consumption outside the home for a period when bars and restaurants reopen. (Higher)
4. The lockdown in Jersey will promote the purchase of goods and services via the internet, and delivery by post, which are not subject to GST if the value of the goods purchased are below or up to the de-minimus value. This could prompt a permanent change in consumer behaviour, with fewer physical purchases made in Jersey. (Lower). NB this is discussed further in Annex 2.
5. Fuel consumption may fall very sharply under lockdown. In the UK, figures taken from the Department for Business, Energy & Industrial Strategy (BEIS) survey conducted over the weekend 28-29 March showed that petrol consumption was down by 75% and diesel by 71% across supermarkets, oil company and independent sites. (Lower).

Following the first draft of this note, further work has been done to consider the seasonal variation in GST expenditures using new analysis by Revenue. Monthly

data on GST returns, payments and repayments by sector e.g. Wholesale and Retail are available for 2018. The data showed a 'stagger', with a high proportion of the value of returns at the end of calendar quarters i.e. March, June, September and December. This reflects the fact that most firms make a return for three months ending in March for example: not that most activity occurs in March.

The data showed seasonality in accommodation and food services with Q2 and Q3 (the quarters affected by lockdown) accounting for 62% of the total, by contrast the respective figure for wholesale and retail is 51% i.e. not seasonal. The lack of seasonality in retail may reflect offsetting effects between expenditure by tourists, business travellers and residents' expenditure abroad. The seasonality in GST receipts by sector is shown in **Table 7**. Accounting for the seasonality in Accommodation and food services makes little impact of the overall GST forecast, reducing revenues by a further £0.4 million. Given the wider uncertainties the forecast was left unchanged with no separate adjustment applied for seasonality.

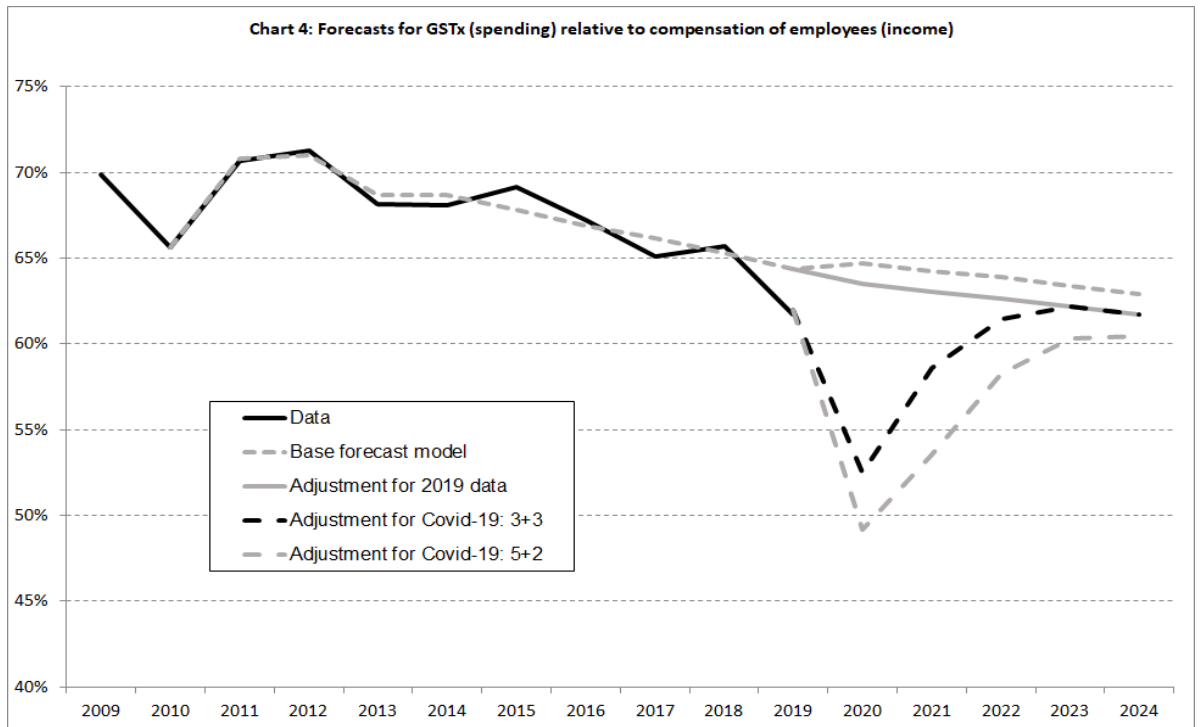
A4 Uncertainties and sensitivities

Conditional on the forecast for compensation of employees the forecast for GST is extremely accurate with a standard error in the estimated equation of 1.25%. Note that the standard error is different from the average forecast error. A general result in statistics for the normal distribution is that 95% of values lie within +/- 1.96 standard errors of the mean so, given the forecast for CoE, the model suggests that forecast GST will be roughly within +/- 2.5% or £2 million 95% of the time or +/- 1.25% or £1 million 66% of the time.

Conditional on the FPP forecast for Compensation of Employees in 2019 the forecast error in GSTx of 4.4% i.e. forecast growth of +2.3% compared with a fall of -2.6% in the outturn data is statistically significant. On the one hand this error could be entirely a one-off outlier with no new information for the forecast i.e. 'noise', but on the other it could reflect new information i.e. 'news' that should be reflected in the forecast. Note that the forecast model is estimated over the period 2010-2018 and is, by construction in the statistical method used, unbiased in that the average forecast error is zero. To take account of the likely 'news' in the forecast error for 2019 the forecast model was adjusted by applying half the forecast error i.e. -2.2% as an adjustment in future years. This reflects a pragmatic judgement that half the forecast error in 2019 was noise but half the error was news.

To consider the uncertainty and sensitivities in the GSTx forecast the implicit expenditure liable to GST was compared over time as a proportion of Compensation of Employees that is the economic variable which is assumed to be the key driver of GSTx expenditures in Chart 4.

The 3+3 scenario (-17% in 2020) provides a central forecast and the 5+2 scenario with an additional 6% point fall in GSTx receipts in 2020 provides one part of a downside forecast. In addition, the downside forecast includes a weaker recovery and permanently lower level of receipts.



There is a notable downward drift in GSTx expenditures relative to CoE that may reflect a rising proportion of expenditures imported below the de minimis threshold of £240, or alternatively a rising proportion of income (CoE) allocated to expenditures that are not liable for GST e.g. housing costs. This trend is reflected in the forecast model where the coefficient on the growth in CoE is around 85% which implies that 5% growth in CoE would be accompanied by growth of 4.25% in GSTx receipts. It should be noted that the forecast adjustment for 2019 data provides a more realistic trend.

Discussion at the IFG on 14/04/20 concluded that it was unlikely that following the fall in 2020 due to Covid-19 'lockdown' expenditure and hence GST receipts would recover completely to the forecast value in 2021. While the FPP economic forecast includes the effect of Covid-19 it was felt that there would be a persistent impact on GST receipts in 2021, with an implicit judgement that there would be a change in consumer behaviour. This judgement is consistent with subsequent reporting in the Financial Times on the challenges for retailing⁴.

There was also agreement that the assumptions around lockdown should be amended to a central case of 3+3 and a downside case of 5+2. For the central case of 3+3 adjustments of -7% and -2% were applied to the GSTx forecast in 2021 and 2022 respectively that deliver a protracted recovery in GSTx receipts, and implicitly consumption, relative to income. This would be consistent with a rise in household saving following the forecast recession in 2020 as households recover from a significant rise in unemployment and a fall in incomes. It would generally be consistent with a more cautious consumer post-recession with a rise in precautionary saving. For the downside case of 5+2 larger adjustments were applied consistent with a slower and weaker recovery in GSTx receipts. These judgements are illustrated in Chart 4 above and set out in a revised **Table 5** and

⁴ Retailers fear pain will last beyond the end of lockdown - <https://www.ft.com/content/64dd785f-c08c-4c6c-a952-3bc088871cbd>

Table 6 for the central and downside forecasts respectively. It should be noted that the first draft of the GST forecast had an estimated fall in receipts of 27% in 2020 that was revised to 22% with judgement, this included a more severe set of assumptions around lockdown in the monthly profile with six months of zero revenue for 'Red sectors'.

Finally, on 17 April, *the Government of Jersey has announced that it will be deferring the changes to the "de-minimis" level for paying GST on unaccompanied imported goods for personal use. This change is being deferred due to the Coronavirus pandemic. These changes, outlined in the Government Plan 2020-23, were due to take place from 01 July 2020 and would see the value of goods which could be imported - mainly through the postal system - without paying GST drop from £240 to £135. However, the Treasury and Resources Minister, Deputy Susie Pinel, has decided that the change should be deferred to January 2021 to help manage the current pressures on hauliers, postal workers and customs officers.* So this is reflected with a 'scorecard' loss of revenue of £400k in 2020 and an unchanged costing of £800k in 2021 and thereafter. Note that the IFG forecast does not include any estimates for the impact of policy measures that might be brought forward in the Government Plan for revised ISE fees.

The IFG meeting on 11 August considered the draft GST forecast. It was noted that the revised outturn data for GST in 2018 and 2019 did not change the parameters of the forecast model, and that the revised economic forecast with significant revisions to GVA and profits (gross operating surplus) but little revision to compensation of employees did not, by itself, change the GST forecast very much. Revised forecasts under '3+3' and '5+2' are set out in **Chart 4** above and **Tables 5** and **6**.

The IFG meeting on 18 August agreed that in March at the start of 'lockdown' it made sense to include a downside scenario for a longer lockdown but in August it made more sense to agree a single central scenario. The IFG discussed the prospects for retailing in the medium term given the likely impacts of Covid-19 e.g. the evidence in the charts presented in Annex 2, the IFG concluded that the central scenario should include the 'hit' in the medium-term present in the 5+2.

A5 Conclusion

The IFG agreed that the base forecast driven by the economy forecast was reasonable and made a judgement to include an adjustment to the model to take account of the large forecast error in 2019 of just under +4%. Specifically, the IFG agreed apply half of that forecast error to the model for 2020 onwards, the result of which is to lower the forecast for GXTx, conditional on the economy forecast for compensation of employees, by around 2%. In considering the impact of Covid-19 and lockdown the IFG agreed on an adjustment to forecast GSTx receipts (accrued) in 2020 of -17%. After careful debate it was agreed that receipts were unlikely to recover quickly and that further downward adjustments to the base forecast were warranted from 2021 onwards. In the August meetings the IFG noted the downward trend in expenditure liable to GST relative to the compensation of employees. Reviewing the evidence around the switch to online purchases in the UK through lockdown e.g. Annex 2 it was judged that this made a return to the trend prior to Covid-19 unlikely. In addition, there were clear economic arguments e.g. the balance between 'forced' saving in lockdown and

precautionary saving in the recovery with higher unemployment that suggested household consumption and hence GSTx receipts would be lower relative to income. This meant that the outcome in the 5+2 scenario where the ratio of GSTx expenditures to compensation of employees did not recover to its pre-crisis trend was the more likely outcome.

The IFG agreed a central forecast set out in **Table 8** and illustrated in the chart below.

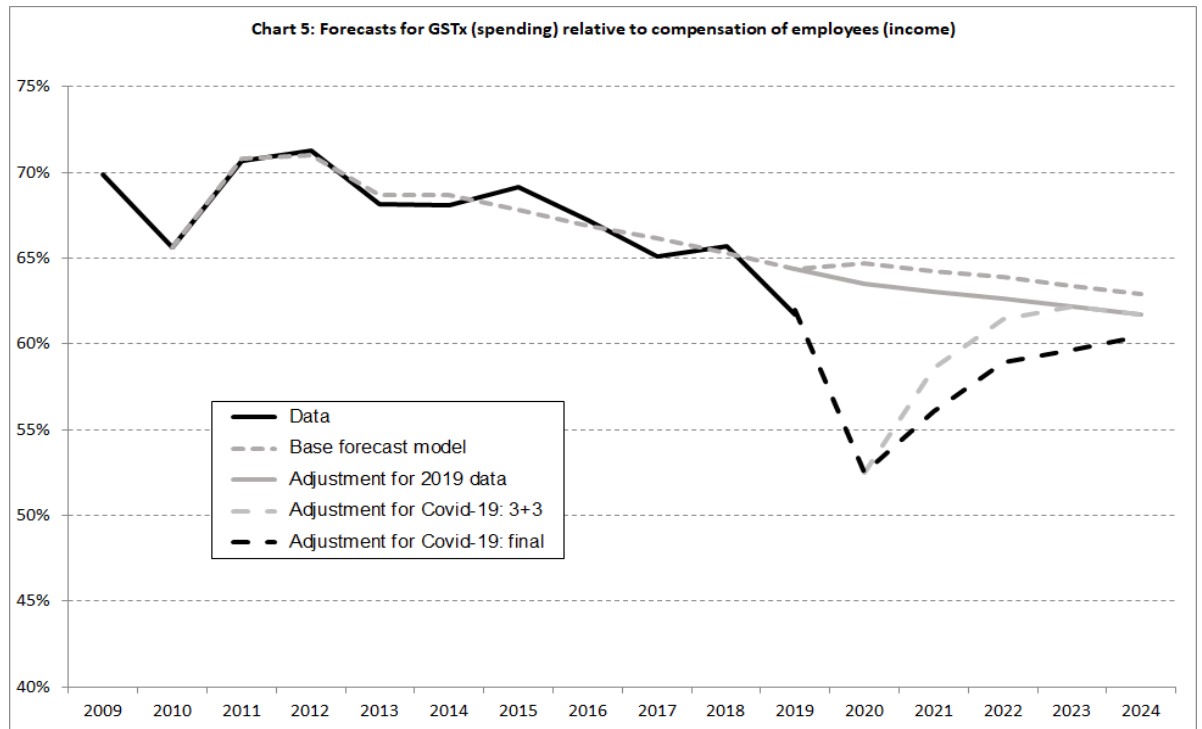


Table 3: Estimating the impact of Covid-19 on GST revenues in 2020, Wholesale and Retail trade; 3+3 scenario

RAG Rating for SIC Sub-Sector	2020 Revenue proportions in months of 2020												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Red	58%	100%	100%	50%	0%	0%	0%	25%	50%	75%	100%	100%	100%
Amber	79%	100%	100%	75%	50%	50%	50%	50%	75%	100%	100%	100%	100%
Green	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Essential	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

		FTE	GST	Revenue
Wholesale and Retail Trade		6310	41.0	77%
Sale of motor vehicles	R	420	2.9	58%
Maintenance and repair of motor vehicles	E	300	2.1	100%
Sale of motor vehicle parts and accessories	R	30	0.2	58%
Sale, maintenance and repair of motorcycles and related parts and accessories	R	40	0.3	58%
Wholesale on a fee or contract basis	A	10	0.1	79%
Wholesale of agricultural raw materials and live animals; Wholesale of information and communication equipment; Non-specialised wholesale trade; unspecified wholesale	G	40	0.3	100%
Wholesale of food, beverages and tobacco	G	310	2.2	100%
Wholesale of household goods	G	120	0.8	100%
Wholesale of other machinery, equipment and supplies	A	120	0.8	79%
Other specialised wholesale	E	440	3.1	100%
Retail sale in non-specialised stores	R	2,180	15.2	58%
Retail sale of food, beverages and tobacco in specialised stores	G	190	1.3	100%
Retail sale of automotive fuel in specialised stores	R	110	0.8	58%
Retail sale of information and communication equipment in specialised stores	R	30	0.2	58%
Retail sale of other household equipment in specialised stores	R	260	1.8	58%
Retail sale of cultural and recreation goods in specialised stores	R	170	1.2	58%
Retail sale of clothing in specialised stores; Retail sale of footwear and leather goods in specialised stores	R	360	2.5	58%
Dispensing chemist in specialised stores; Retail sale of medical and orthopaedic goods in specialised stores; Retail sale of cosmetic and toilet articles in specialised stores	G	270	1.9	100%
Retail sale of flowers, plants, seeds, fertilisers, pet animals and pet food in specialised stores	R	250	1.7	58%
Retail sale of watches and jewellery in specialised stores	R	120	0.8	58%
Other retail sale of new goods in specialised stores; unspecified retail	R	90	0.6	58%
Retail sale of second-hand goods in stores	R	40	0.3	58%
Retail sale via stalls and markets	R	30	0.2	58%
Retail sale via mail order houses or via Internet	G	350	2.4	100%
Other retail sale not in stores, stalls or markets	R	30	0.2	58%

Table 4: Estimating the impact of Covid-19 on GST revenues in 2020, All Sectors; 3+3 scenario

RAG Rating for SIC Sub-Sector	2020	Revenue proportions in months of 2020											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Red	58%	100%	100%	50%	0%	0%	0%	25%	50%	75%	100%	100%	100%
Amber	79%	100%	100%	75%	50%	50%	50%	50%	75%	100%	100%	100%	100%
Green	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Essential	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

	2018 £M	Covid £M	Impact of Covid-19, % and 2018 £M	
Total	78.0	64.5	-17%	-£13.5
A - Agriculture, Forestry and Fishing	1.0	1.0	0%	£0.0
B - Mining and Quarrying	1.0	1.0	0%	£0.0
C - Manufacturing	3.0	3.0	0%	£0.0
D - Electricity, Gas, Steam, and Air Conditioning	5.0	5.0	0%	£0.0
E - Water Supply Sewerage Waste management	1.0	1.0	0%	£0.0
F - Construction	6.0	5.3	-11%	-£0.7
G - Wholesale and Retail Trade	41.0	31.7	-23%	-£9.3
H - Transportation and Storage	2.0	2.0	0%	£0.0
I - Accommodation and food services activities	9.0	5.5	-39%	-£3.5
J - Information and Communication	6.0	6.0	0%	£0.0
K - Financial and Insurance Activities	1.0	1.0	0%	£0.0
L - Real Estate Activities	1.0	1.0	0%	£0.0
M - Professional Scientific and Technical Activities	4.0	4.0	0%	£0.0
N - Administrative and Support Service Activities	3.0	3.0	0%	£0.0
O - Public Administration and Defence	-5.0	-5.0	0%	£0.0
P - Education	0.0	0.0	0%	£0.0
Q - Human Health and Social Work Activities	0.0	0.0	0%	£0.0
R - Arts Entertainment and Recreation	1.0	1.0	0%	£0.0
S - Other Service Activities	0.0	0.0	0%	£0.0
T - Activities of Households as Employers	0.0	0.0	0%	£0.0
V - Charity	-2.0	-2.0	0%	£0.0
W - DIY Housebuilder	0.0	0.0	0%	£0.0
X - Other	0.0	0.0	0%	£0.0

Table 5: Income Forecast Group (IFG) meeting 24 August, interim GST forecast (accrual), £m

		2018	2019	2020	2021	2022	2023	2024	Total 2019-23
GP 2019-23	GST	92.9	93.4	95.9	98.4	100.6	102.7		491
	De minimis			0.4	0.8	0.8	0.8		
	ISE	9.0	9.0	9.0	9.0	9.0	9.0		
	GSTx	84.0	84.5	86.5	88.6	90.8	92.9		
	growth		0.6%	2.5%	2.4%	2.5%	2.4%		
Base (Mar'20)	GSTx	84.0	81.8	82.0	85.0	86.8	88.8	90.9	424
Base (Aug'20) FFP Economic determinants	GST	93.6	91.0	92.5	93.9	96.1	98.1	100.1	472
	De minimis				0.8	0.8	0.8	0.8	
	ISE	9.0	8.9	8.91	8.91	8.91	8.91	8.91	
	GSTx	84.6	82.1	83.6	84.2	86.4	88.4	90.4	
	growth		-2.6%	0.3%	3.6%	2.1%	2.3%	2.3%	
Covid-19 effect: 3+3 scenario				-17%	-7%	-2%	0%	0%	
Revised (Aug'20)	GST	93.6	91.0	78.0	88.0	94.4	98.1	100.1	449
	De minimis			0.0	0.8	0.8	0.8	0.8	
	ISE	9.0	8.9	8.91	8.91	8.91	8.91	8.91	
	GSTx	84.6	82.1	69.1	78.3	84.7	88.4	90.4	
	growth		-2.9%	-16%	13%	8.1%	4.4%	2.3%	
Difference from GP in GST:									
Base (Aug'20) - FFP forecast		0.6	-2.4	-3.4	-4.4	-4.4	-4.6		-19
Revised with Covid-19 effect		0.6	-2.4	-17.9	-10.3	-6.2	-4.6		-41

Note: Outturn data in black text and forecast values in grey

Source: Proposed Government Plan 2020-23, Page 153
States of Jersey, Annual Report & Accounts 2019, page 161

Table 6: Income Forecast Group (IFG) meeting 24 August, interim GST forecast (accrual), £m

		2018	2019	2020	2021	2022	2023	2024	Total 2019-23
GP 2019-23	GST	92.9	93.4	95.9	98.4	100.6	102.7		491
	De minimis			0.4	0.8	0.8	0.8		
	ISE	9.0	9.0	9.0	9.0	9.0	9.0		
	GSTx	84.0	84.5	86.5	88.6	90.8	92.9		
	growth		0.6%	2.5%	2.4%	2.5%	2.4%		
Base (Mar'20)	GSTx	84.0	81.8	82.0	85.0	86.8	88.8	90.9	424
Base (Aug'20) FFP Economic determinants	GST	93.6	91.0	92.5	93.9	96.1	98.1	100.1	472
	De minimis				0.8	0.8	0.8	0.8	
	ISE	9.0	8.9	8.91	8.91	8.91	8.91	8.91	
	GSTx	84.6	82.1	83.6	84.2	86.4	88.4	90.4	
	growth		-2.6%	0.3%	3.6%	2.1%	2.3%	2.3%	
Covid-19 effect: 5+2 scenario				-23%	-15%	-7%	-3%	-2%	
Revised (Aug'20)	GST	93.6	91.0	73.6	81.3	90.1	95.4	98.3	431
	De minimis			0.0	0.8	0.8	0.8	0.8	
	ISE	9.0	8.9	8.91	8.91	8.91	8.91	8.91	
	GSTx	84.6	82.1	64.7	71.6	80.4	85.7	88.6	
	growth		-2.9%	-21%	11%	12.3%	6.7%	3.4%	
Difference from GP in GST:									
Base (Aug'20) - FFP forecast		0.6	-2.4	-3.4	-4.4	-4.4	-4.6		-19
Revised with Covid-19 effect		0.6	-2.4	-22.3	-17.1	-10.5	-7.3		-60

Note: Outturn data in black text and forecast values in grey

Source: Proposed Government Plan 2020-23, Page 153
States of Jersey, Annual Report & Accounts 2019, page 161

Table 7: Income Forecast Group (IFG) meeting, seasonality in GST revenue

Impact of lockdown	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Sector Total	Q2-Q3	12m
Red	100%	100%	50%	0%	0%	0%	25%	50%	75%	100%	100%	100%		15%	
Amber	100%	100%	75%	50%	50%	50%	50%	75%	100%	100%	100%	100%		55%	
Accommodation and food services activities	5%	1%	11%	1%	1%	23%	6%	3%	29%	6%	1%	14%	12%	62%	100%
Administrative and Support Service Activities	4%	0%	18%	4%	0%	21%	5%	0%	22%	4%	0%	21%	4%	52%	100%
Agriculture, Forestry and Fishing	3%	0%	5%	0%	2%	36%	4%	3%	37%	4%	1%	6%	1%	82%	100%
Arts Entertainment and Recreation	3%	0%	26%	2%	0%	20%	3%	0%	25%	3%	0%	18%	2%	50%	100%
Construction	4%	0%	22%	2%	-1%	23%	2%	-1%	23%	3%	-1%	23%	9%	50%	100%
Education	0%	-4%	26%	0%	0%	29%	0%	0%	27%	0%	0%	21%	0%	57%	100%
Electricity, Gas, Steam, and Air Conditioning	0%	0%	28%	0%	0%	25%	0%	0%	21%	0%	0%	25%	7%	47%	100%
Financial and insurance activities	3%	5%	18%	1%	4%	22%	2%	4%	18%	2%	4%	16%	6%	52%	100%
Human Health and Social Work Activities	20%	0%	25%	0%	0%	18%	0%	0%	17%	0%	0%	20%	0%	35%	100%
Information and communication	0%	0%	23%	0%	0%	24%	0%	0%	23%	0%	1%	28%	7%	47%	100%
Manufacturing	5%	1%	17%	4%	0%	22%	4%	0%	22%	2%	0%	23%	2%	53%	100%
Mining and Quarrying	0%	0%	20%	0%	0%	25%	0%	0%	30%	0%	0%	25%	1%	56%	100%
Null	-7%	-5%	35%	-2%	0%	55%	0%	0%	29%	0%	0%	-5%	0%	82%	100%
Other service activities	3%	0%	21%	3%	0%	25%	4%	-2%	25%	3%	0%	18%	0%	55%	100%
Professional Scientific and Technical Activities	3%	0%	21%	3%	0%	20%	2%	0%	23%	3%	0%	24%	5%	48%	100%
Public Administration and Defence	1%	0%	19%	0%	0%	26%	1%	0%	25%	1%	0%	27%	-7%	52%	100%
Real Estate activities	11%	4%	7%	8%	1%	24%	8%	1%	12%	9%	4%	11%	1%	55%	100%
Transportation and storage	8%	0%	13%	10%	1%	21%	6%	0%	12%	9%	1%	20%	1%	49%	100%
Water Supply Sewerage Waste management	0%	0%	23%	0%	0%	25%	0%	0%	25%	0%	0%	28%	1%	50%	100%
Wholesale and Retail Trade	9%	0%	17%	7%	0%	17%	7%	0%	18%	4%	0%	19%	48%	51%	100%
All sectors	6%	1%	18%	5%	0%	20%	6%	1%	21%	4%	1%	19%	100%	52%	100%

Table 8: Income Forecast Group (IFG) meeting 24 August, final GST forecast (accrual), £m

		2018	2019	2020	2021	2022	2023	2024	Total 2019-23
GP 2019-23	GST	92.9	93.4	95.9	98.4	100.6	102.7		491
	De minimis			0.4	0.8	0.8	0.8		
	ISE	9.0	9.0	9.0	9.0	9.0	9.0		
	GSTx	84.0	84.5	86.5	88.6	90.8	92.9		
	growth		0.6%	2.5%	2.4%	2.5%	2.4%		
Base (Mar'20)	GSTx	84.0	81.8	82.0	85.0	86.8	88.8	90.9	424
Base (Aug'20) FPP Economic determinants	GST	93.6	91.0	92.5	93.9	96.1	98.1	100.1	472
	De minimis				0.8	0.8	0.8	0.8	
	ISE	9.0	8.9	8.91	8.91	8.91	8.91	8.91	
	GSTx	84.6	82.1	83.6	84.2	86.4	88.4	90.4	425
	growth		-2.6%	0.3%	3.6%	2.1%	2.3%	2.3%	+0.1%
Covid-19 effect: final				-17%	-11%	-6%	-4%	-2%	
Revised (Aug'20)	GST	93.6	91.0	78.0	84.6	90.9	94.5	98.3	439
	De minimis			0.0	0.8	0.8	0.8	0.8	
	ISE	9.0	8.9	8.91	8.91	8.91	8.91	8.91	
	GSTx	84.6	82.1	69.1	74.9	81.2	84.8	88.6	
	growth		-2.9%	-16%	8%	8.4%	4.4%	4.5%	
Difference from GP in GST:									
Base		0.6	-2.4	-3.4	-4.4	-4.4	-4.6		-19
Revised with Covid-19 effect		0.6	-2.4	-17.9	-13.7	-9.6	-8.1		-52

Note: Outurn data in black text and forecast values in grey

Source: Proposed Government Plan 2020-23, Page 153
States of Jersey, Annual Report & Accounts 2019, page 161

Annex 1 – Model Estimation

The model was estimated in Microfit:

<http://www.econ.cam.ac.uk/people-files/emeritus/mhp1/Microfit/Microfit.html>

The model, being quite simple, could also be replicated in Excel that supports Ordinary Least Squares (OLS) estimation though the 'Data Analysis' toolpak. Note that the model is estimated in natural logarithms of the variables.

17/04/2020

14:42:33

```

Autoregressive Distributed Lag Estimates
ARDL(1,0,0) selected based on Schwarz Bayesian Criterion
*****
Dependent variable is GSTX
9 observations used for estimation from 2010 to 2018
*****
Regressor          Coefficient      Standard Error      T-Ratio[Prob]
GSTX(-1)           -.14396          .039352             -3.6583[.015]
COE                .85751          .069634             12.3146[.000]
GST_RATE           1.2532          .049743             25.1934[.000]
INPT               2.0803          .47346              4.3938[.007]
*****
R-Squared          .99808          R-Bar-Squared       .99693
S.E. of Regression .013069        F-Stat.  F(3,5)     867.5747[.000]
Mean of Dependent Variable 4.2127        S.D. of Dependent Variable .23595
Residual Sum of Squares .8540E-3      Equation Log-likelihood 28.9123
Akaike Info. Criterion 24.9123      Schwarz Bayesian Criterion 24.5179
DW-statistic       2.4847      Durbin's h-statistic -.73214[.464]
*****

```

```

Diagnostic Tests
*****
* Test Statistics *      LM Version      *      F Version      *
*****
* A:Serial Correlation*CHSQ(1) = .68598[.408]*F(1,4) = .33003[.596]*
* B:Functional Form *CHSQ(1) = .10562[.745]*F(1,4) = .047499[.838]*
* C:Normality *CHSQ(2) = .12376[.940]* Not applicable *
* D:Heteroscedasticity*CHSQ(1) = 1.4038[.236]*F(1,7) = 1.2937[.293]*
*****
A:Lagrange multiplier test of residual serial correlation
B:Ramsey's RESET test using the square of the fitted values
C:Based on a test of skewness and kurtosis of residuals
D:Based on the regression of squared residuals on squared fitted values

```

17/04/2020

14:45:13

Estimated Long Run Coefficients using the ARDL Approach
ARDL(1,0,0) selected based on Schwarz Bayesian Criterion

```
*****
Dependent variable is GSTX
9 observations used for estimation from 2010 to 2018
*****
Regressor          Coefficient      Standard Error      T-Ratio[Prob]
COE                 .74960           .049394             15.1758[.000]
GST_RATE           1.0955           .026016             42.1085[.000]
INPT                1.8185           .42418              4.2871[.008]
*****
```

Testing for existence of a level relationship among the variables in the ARDL model

```
*****
F-statistic  95% Lower Bound  95% Upper Bound  90% Lower Bound  90% Upper Bound
1.4624       7.6087            9.7298           5.2212           6.7597

W-statistic  95% Lower Bound  95% Upper Bound  90% Lower Bound  90% Upper Bound
4.3873       22.8261           29.1894          15.6637          20.2791
*****
If the statistic lies between the bounds, the test is inconclusive. If it is
above the upper bound, the null hypothesis of no level effect is rejected. If
it is below the lower bound, the null hypothesis of no level effect can't be
rejected. The critical value bounds are computed by stochastic simulations
using 20000 replications.
```

17/04/2020

14:50:34

Error Correction Representation for the Selected ARDL Model
ARDL(1,0,0) selected based on Schwarz Bayesian Criterion

```
*****
Dependent variable is dGSTX
9 observations used for estimation from 2010 to 2018
*****
Regressor          Coefficient      Standard Error      T-Ratio[Prob]
dCOE              .85751           .069634             12.3146[.000]
dGST_RATE        1.2532           .049743             25.1934[.000]
ecm(-1)         -1.1440           .039352             -29.0698[.000]
*****
```

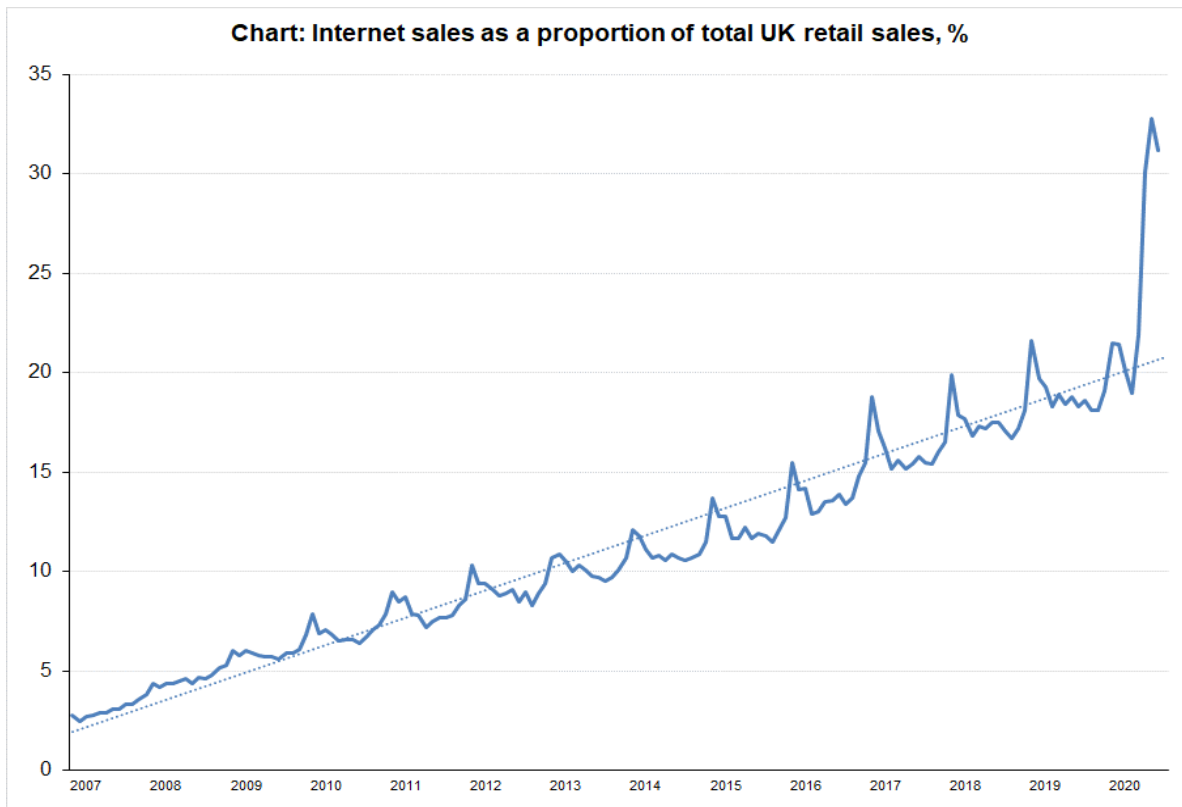
List of additional temporary variables created:

```
dGSTX = GSTX-GSTX(-1)
dCOE = COE-COE(-1)
dGST_RATE = GST_RATE-GST_RATE(-1)
ecm = GSTX - .74960*COE - 1.0955*GST_RATE - 1.8185*INPT
*****
R-Squared          .99444      R-Bar-Squared          .99111
S.E. of Regression .013069    F-Stat.      F(3,5)      298.2888[.000]
Mean of Dependent Variable .080500    S.D. of Dependent Variable .13861
Residual Sum of Squares .8540E-3    Equation Log-likelihood      28.9123
Akaike Info. Criterion 24.9123    Schwarz Bayesian Criterion    24.5179
DW-statistic       2.4847
*****
```

R-Squared and R-Bar-Squared measures refer to the dependent variable dGSTX and in cases where the error correction model is highly restricted, these measures could become negative.

Annex 2 – Online Sales

In considering the GSTx forecast the IFG noted data from the UK set out in the chart below that highlighted the rise in the proportion of retail sales by value accounted for by the internet. Although some of the rise in this proportion was simply a result of physical stores being closed there was also clear evidence of a switch towards online retailing that was unlikely to be reversed completely as lockdown ended.



Appendix C – Impôts duty forecast

Customs and Immigration Service

Update to Impôts estimates 2020-2024

1. Introduction

1.1 This paper gives an interim update to Impôts yield for Customs and Excise duty for 2020 and the estimates of yield for the years 2020 to 2024.

2. Assumptions and uncertainties

2.1 The impact of the coronavirus outbreak brings considerable uncertainty to the forecasting of Impôts duty. This update takes account of actual receipts for Q1 and Q2 which provide helpful indicators of the effect of the pandemic on consumption although considerable uncertainty still exists as to potential changes in travel patterns and other restrictions for the remainder of the year.

2.2 The April 2020 forecast provided a 3+3 and a 5+2 scenario which were applied to provide adjustments for the potential effect of short and longer lockdowns with varying lengths of recovery.

Table 1 - Summary of Q1 and Q2 volumes

	10 year average increase / decrease - quantity	Jan-June Quantity			April-June Quantity		
		5 year average	2020	% change 2020 to 5 year average	Average Q2 past 5 years	Q2 2020	% change Q2 2020 to 5 year Q2 average
Spirits (litres of alc)	100%	67,880	77,969	15%	39,700	43,464	9%
Wine (litres)	100%	1,847,408	1,783,426	-3%	1,073,451	1,018,557	-5%
Cider (litres)	98%	578,711	481,935	-17%	341,948	309,240	-10%
Beer (litres)	99%	3,940,171	3,453,953	-12%	2,358,343	1,876,879	-20%
Tobacco (kg)	94%	13,135	14,974	14%	9,534	10,433	9%
Fuel (litres)	99%	23,140,990	18,459,941	-20%	11,725,460	8,133,619	-31%

3. Alcohol

3.1 A number of UK surveys⁵ have examined specifically the issue of drinking during the pandemic with mixed findings. However a general theme does emerge that between a fifth and a third of people drunk more during lockdown.

⁵ UK Alcohol Duty Statistics - <https://bit.ly/2Nr1BOF>

3.2 The April report drew comparisons between off-trade and on-trade sales which are still relevant and to a degree increased off-trade sales will have compensated for on-trade closures of pubs, clubs and restaurants. A picture is beginning to emerge from the trade and current excise receipts as to how duty receipts for each individual commodity have been affected.

3.3 Spirits

3.3.1 Over a ten-year average quantities have remained static. The period April to June 2020 saw a 9% increase in quantities charged to duty as compared with a 15% increase over the period January to June 2020.

3.3.2 It is likely that this increase is due in part to an increase in off-trade sales and in part to a lack of duty-free imports and the forecast now incorporates a 5% increase in the quantities of spirits being put to duty.

3.4 Wine

3.4.1 The period April to June 2020 saw a 5% decrease in quantities charged to duty as compared with a 3% decrease over the period January to June 2020. This latest revision of the 2020 forecast incorporates a 3% decrease to reflect increased consumption of wine at home set against reduced visitor numbers and an adjustment arising out of the reduction of on-trade sales.

3.5 Cider

3.5.1 3.5.1. The period April to June 2020 saw a 10% decrease in quantities charged to duty as compared with a 17% decrease over the period January to June 2020. The 2020 forecast has been adjusted to show a 5% decrease for 2020. Cider represents only a small proportion (5%) of the alcohol market so the effects on estimates are negligible.

3.6 Beer

3.6.1 The period April to June 2020 saw a sharp 20% decrease in quantities charged to duty as compared with a 12% decrease over the period January to June 2020.

3.6.2 It is believed that the decrease is due principally to the closure of on-trade premises during the lockdown and the ongoing effects of social distancing measures and a downturn in visitors. The forecast has been revised to incorporate a 10% decrease in revenue from beer duty.

4. Fuel

- 4.1 Fuel consumption fell significantly as a result of lockdown. The April forecast described that suppliers were working on an initial assumption of a 70 to 80% decrease in sales over the lockdown period. Whilst this appears to be accurate for the period of lockdown itself, excise figures show a 20% decrease in road fuel consumption for Jan-June and a 31% decrease in April-June.
- 4.2 Information from the trade indicates that the downturn in visitor numbers and increased homeworking has led to a decrease in demand for road fuel of between 10% and 20%. On that basis the updated forecast for 2020 is calculated on a 15% decrease in quantities of fuel being put to duty.
- 4.3 Looking forward to 2021 there remains the potential for the decrease in vehicle usage to continue as a result of changed patterns of behaviour. Therefore, at this stage, the 2021 forecast is being adjusted downward by a cautionary 5% but this will of course be subject to ongoing review.

5. Tobacco

- 5.1 Early intelligence in April 2020 indicated that duty paid tobacco consumption has increased by at least 20% since travel to the Island was restricted.
- 5.2 January-June (+14%) and April-June (+9%) excise receipts support that intelligence particularly when considering that we would ordinarily expect an average of a 6% decrease for tobacco consumption year on year. Actual excise figures show that dutiable tobacco quantities (in particular cigarettes and hand rolling tobacco) have increased by between 15% and 20%.
- 5.3 It is assessed that the vast majority of this increase is due to the effect of lack of duty free imports and this is borne out by feedback from the trade who have seen an increase of between 30% and 40% in sales volumes. Supply chain issues, such as long lead-in times for orders, have resulted in a lack of available stock and sales would have otherwise have been even more buoyant.
- 5.4 As borders start to only cautiously open, and with the real possibility that travel disruption and restrictions will continue for the foreseeable future, the excise forecast for tobacco has been revised upward to show a 25% increase in quantities charged to excise duty for 2020. This may prove be a slightly over-cautious estimate but it is believed to be a realistic central scenario for the purpose of this forecast. The figures will be reviewed and revised at the end of Quarter 3.
- 5.5 The current forecast for 2021 has similarly been adjusted upward, but only by 5% at this stage, with the expectation that travel disruption, and therefore decreased duty-free sales, will continue to have an effect into the early part of 2021.

6. Other

- 6.1 For the purpose of this forecast Vehicle Emissions Duty has been reduced by 20% in line with estimates from Jan-June receipts.
- 6.2 The forecast for Customs duty (CCT) has been increased from £200,000 to £400,000 as a result of an exceptional one-off payment for products incorrectly declared in 2018 and 2019.

7. Impôts Forecast 2020 to 2024

7.1 **Table 2** includes the GP measures and RPI increases as follows:

- Alcohol: No increase for 2021, RPI increase for 2022 (1.5%), 2023 (2.4%), 2024 (2.5%);
- Cigarettes: RPI + 5% increase for 2021, 2022, 2023, RPI for 2024
- HRT: RPI + 8% increase for 2021, 2022, 2023, RPI for 2024
- Fuel: 2p above RPI inflation for 2021 and 2022, RPI for 2023 and 2024

7.2 2024 figures for alcohol and tobacco are based upon 10 year quantitative trends together with the forecast RPI increase of 2.5%.

Table 2: Impôts duty forecast

2019 Outturn	Impôts Duties (£'000)	2020 Original Forecast	Revised 2020 Forecast (Aug 2020)	Apr 2020 Forecast (lower scenario)	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
6,132	Spirits	7,435	7,544	6,840	7,185	7,293	7,476	7,701
6,375	Autumn 2019	7,268	7,268	7,268	7,441	7,635	7,841	
8,409	Wine	8,996	8,717	8,276	8,986	9,122	9,340	9,622
8,442	Autumn 2019	8,795	8,795	8,795	9,006	9,240	9,490	
832	Cider	848	851	779	860	855	858	868
796	Autumn 2019	834	834	834	846	860	873	
6,204	Beer	6,456	6,031	5,940	6,569	6,633	6,691	6,791
6,339	Autumn 2019	6,628	6,628	6,628	6,719	6,827	6,941	
15,399	Tobacco	15,695	19,871	17,032	16,463	15,715	15,933	15,352
15,081	Autumn 2019	15,720	15,720	15,720	16,283	16,897	17,534	
22,685	Fuel	25,611	21,944	20,233	24,993	27,517	27,895	28,307
23,557	Autumn 2019	26,088	26,088	26,088	27,360	28,695	29,175	
235	Customs Duty	400	400	400	200	200	200	200
200	Autumn 2019	200	200	200	200	200	200	
2,983	Vehicle Emissions Duty (VED)	2,948	2,358	1,179	2,730	2,644	2,644	2,644
2,948	Autumn 2019	2,730	2,730	2,730	2,644	2,644	2,644	
62,879	Total Impôts	68,389	67,716	60,679	67,986	69,979	71,037	71,485
63,738	Autumn 2019	68,263	68,263	68,263	70,499	72,998	74,698	
-859	Variation	126	-547	-7,584	-2,513	-3,019	-3,661	
-1.3%		0.2%	-0.8%	-11.1%	-3.6%	-4.1%	-4.9%	

Appendix D – Stamp duty forecast

Report on Stamp Duty for the IFG autumn 2020 Forecast

1. Summary

- 1.1 The Covid-19 pandemic has caused significant disruption in the housing market, with the number of transactions in Q2 being around half of those in 2019. However, early data suggests that the easing of lockdown restrictions has permitted a resurgence in property transactions.
- 1.2 The updated FPP economic assumptions have improved for 2020, but also suggest a much slower recovery in house prices and transactions compared to the spring forecast.
- 1.3 The shorter than anticipated reduction in housing market activity, and the revised FPP economic assumptions have resulted in a c.43% increase to the spring stamp duty forecast for 2020 (£29.1 million). However, the slower recovery in property transactions and prices now forecast by the FPP has maintained the c.20% decrease for 2023 (£31.3 million) when compared to the autumn 2019 forecast used in the Government Plan 2020-2023 (Figure 8).

2. Transactions for January to June (Q1-Q2) 2020

- 2.1 As outlined in the spring forecast, Q1 of 2020 showed a strong recovery in stamp duty relating to property transactions compared to the same period in 2019.
- 2.2 Additionally, a number of significant transactions of property costing more than £2 million have assisted the first half of 2020 outperforming the same period in 2019 (Figure 1).

Figure 1: Q1-Q2 2020 Stamp Duty values

Q1-Q2 Stamp Duty (£'000)	2016	2017	2018	2019	2020
Stamp duty - transactions under £2 million	7,057	7,933	10,181	8,107	7,848
Stamp duty - transactions over £2 million	2,579	3,927	4,642	2,864	4,641
Land Transaction Tax (LTT)	687	1,100	1,223	1,471	845
Total	10,322	12,960	16,047	12,442	13,334

- 2.3 The reduction in the total number of transactions (**Figure 2**) seen in Q2 this year has not translated into a similar reduction in stamp duty. This is predominately due to a number of the transactions in 2019 being in respect of first-time buyers who generate little stamp duty, or LTT, revenue.

Figure 2: Q1-Q2 2020 Stamp Duty transactions

Q1-Q2 Transactions	2016	2017	2018	2019	2020
Stamp duty - transactions under £2 million	1421	1570	1576	1376	1189
Stamp duty - transactions over £2 million	34	44	50	34	34

3. Revised FPP Economic Assumptions (August 2020)

- 3.1 With the housing market significantly restricted for several weeks, there was a notable decrease in the number of property transactions in Q2 of 2020.
- 3.2 Whilst transaction levels have rebounded strongly, the FPP consider that there will still be fewer transactions than in 2019.
- 3.3 Overall, the updated FPP assumptions for House Prices and Housing Transactions in 2020 have improved since the spring forecast, with house prices expected to remain consistent with previous years and a decrease in the expected drop in housing transactions from -50% to -20% (**Figure 3**).
- 3.4 The recently released Statistics Jersey House price report for Q2 2020⁶ suggests that transactions reduced slightly more than previously anticipated. However, information from the Judicial Greffe indicates that Q3 continues to remain strong and therefore the 20% annual fall remains reasonable.
- 3.5 However, the FPP are now forecasting a drop in property prices in 2021 and a considerably slower recovery in property transactions compared to the spring forecast (**Figure 4**).

Figure 3: FPP Economic Assumptions August 2020

August 2020 Assumptions (% change)	2020	2021	2022	2023	2024
House Prices	0.0	-2.0	2.7	2.7	2.7
Housing Transactions	-20.0	10.0	1.5	1.5	1.5

⁶ Statistics Jersey House price report for Q2 2020 - <https://www.gov.je/News/2020/Pages/House-price-report-for-the-second-quarter-2020-published.aspx>

Figure 4: Variation to FPP Economic Assumptions from March 2020

Variation to March 2020 (% change)	2020	2021	2022	2023	2024
House Prices	+10.0	-7.0	-1.3	-0.3	0
Housing Transactions	+30.0	-35.0	-13.5	-5.5	0

4. Autumn 2020 proposed forecast for Stamp Duty

- 4.1 The stamp duty forecast has been revised to include data from in-year transactions and the updated FPP economic assumptions.
- 4.2 Compared to the spring 2020 forecast, there is a material increase (c.43%) to £29.1 million in 2020, but with the assumptions of a slower recovery in house prices and transactions resulting in the spring 2020 forecast only increasing by less than 1% in 2024.

Transactions under £2 million

- 4.3 The forecast for transactions under £2 million would typically be adjusted to allow for seasonal variation, however with 2020 presenting a significantly different housing market to previous years this has been replaced by an assumption of Q3 transactions being down 20% of the 3 year average and Q4 down 10% (Figure 5).

Figure 5: Forecast for stamp duty transactions under £2 million for 2020

(£'000)	2017	2018	2019	3 Year Average	Adjustment	2020 Actual/Forecast
Jan - Jun	7,933	10,181	8,107	8,741		7,848
Q3	4,199	5,301	4,951	4,817	-20%	3,854
Q4	4,744	4,528	5,515	4,929	-10%	4,436
Total	16,876	20,010	18,573	18,486		16,137

Transactions over £2 million

- 4.4 The tapering of Stamp Duty means that property transactions over £2 million are increasingly difficult to forecast, with recent transfers of property producing significant amounts of duty from single transactions.
- 4.5 The spring 2020 forecast assumed a reduction of 30% in transactions of property over £2 million by non-High Value Residents in 2020 and 25% in following years. Reflecting the revisions in the August FPP Economic Assumptions, this has been revised to 20% in 2020 and 15% in following years.

Figure 6: Forecast for property transactions over 2 million

(£'000)	Property non-HVR	HVR Property	Other	Total
2020	3,305	2,759	1,356	7,420
2021	3,512	2,916	1,441	7,869
2022	3,512	1,379	1,441	6,332
2023	3,512	1,379	1,441	6,332
2024	3,512	1,379	1,441	6,332

Land Transaction Tax

- 4.6 The forecast for Land Transaction Tax (LTT) has used the same assumptions as those for stamp duty transactions under £2 million, described above, resulting in a c.£1 million increase in the 2020 forecast (Figure 7).

Figure 7: Forecast for Land Transaction Tax for 2020

(£'000)	2017	2018	2019	3 Year Average	Adjustment	2020 Actual/Forecast
Jan - Jun	1,100	1,223	1,471	1,265		949
Q3	456	680	667	601	-20%	491
Q4	736	833	613	728	-10%	655
Total	2,292	2,737	2,751	2,593		2,084

Wills and Probate

- 4.7 The in-year transactions for Wills and Probate have been reviewed, with the first half of the year showing around 50% of the amount forecast for 2020 duty having been charged. There is therefore no change suggested to the spring forecast.

Figure 8: Autumn 2020 stamp duty central forecast 2020 – 2024

Outturn		Stamp Duty Forecast					Forecast
2019			2020	2021	2022	2023	2024
£'000			£'000	£'000	£'000	£'000	£'000
Stamp Duty							
18,573	- Transactions <£2m	Autumn 2020	16,137	17,396	18,134	18,903	19,704
19,017		GP Addendum	20,645	22,264	23,597	24,597	-
(444)		Variance	(4,508)	(4,869)	(5,463)	(5,695)	19,704
		Spring 2020	8,812	14,099	16,863	18,585	19,373
9,254	- Transactions >£2m	Autumn 2020	7,420	7,869	6,332	6,332	6,332
8,060		GP Addendum	7,919	6,883	6,883	6,883	-
1,194		Variance	(499)	986	(551)	(551)	6,332
		Spring 2020	6,800	7,286	6,314	6,314	6,314
1,082	- Wills	Autumn 2020	1,041	1,041	1,041	1,041	1,041
1,004		GP Addendum	1,004	1,004	1,004	1,004	-
78		Variance	37	37	37	37	1,041
		Spring 2020	1,041	1,041	1,041	1,041	1,041
28,909	Total Stamp Duty	Autumn 2020	24,599	26,306	25,507	26,276	27,078
28,080		GP Addendum	29,568	30,151	31,483	32,484	-
829		Variance	(4,969)	(3,845)	(5,976)	(6,208)	27,078
		Spring 2020	16,653	22,426	24,218	25,940	26,728
2,548	Probate	Autumn 2020	2,400	2,400	2,400	2,400	2,400
2,400		GP Addendum	2,400	2,400	2,400	2,400	-
148		Variance	-	-	-	-	2,400
		Spring 2020	2,400	2,400	2,400	2,400	2,400
2,751	LTT	Autumn 2020	2,084	2,247	2,342	2,442	2,545
3,162		GP Addendum	3,072	3,367	3,631	3,848	-
(412)		Variance	(988)	(1,120)	(1,289)	(1,406)	2,545
		Spring 2020	1,265	2,025	2,422	2,669	2,782
34,208	Total Stamp Duty	Autumn 2020	29,083	30,953	30,249	31,118	32,023
33,643		GP Addendum	35,040	35,918	37,514	38,732	-
565		Variance	(5,957)	(4,965)	(7,265)	(7,614)	-
1.68%		Spring 2020	20,318	26,851	29,040	31,009	31,910
		Variance	43.1%	15.3%	4.2%	0.3%	0.4%

Appendix E – Other income forecast

Report on forecast of “Other Income” for the IFG autumn 2020 Forecast

Summary

“Other Income” combines a number of income lines for the Government of Jersey which do not relate to taxation and charges. At a high level, these are:

- Island-wide rates (Part of the Rates system and collected by parishes)
- Income from Dividends and returns (from States-owned entities)
- Non dividends (crown revenues, miscellaneous interest, fees and fines)
- Returns from Andium Homes and Housing Trusts

The Spring 2020 forecast total income from these sources was £59.8 million in 2020. The Autumn 2020 forecast is £59.1 million in 2020, which represents a reduction in forecast of £0.7 million (1.2%).

Forecast range and Coronavirus impact

Forecasters have only been asked to prepare a central scenario. Should a higher/lower range be required, forecasters can be asked to provide this, based on appropriate assumptions.

Autumn 2020 “Other income” Forecast

Table 1 – Autumn 2020 Other Income Forecast

	Forecast (Autumn 2020)		Gov Plan 2021-24 Estimates (Autumn 2020)		
	2020 £'000	2021 £'000	2022 £'000	2023 £'000	2024 £'000
Island-wide Rate	13,286	13,486	13,809	14,155	14,523
Other Income – Dividends	9,330	8,133	8,568	8,918	9,347
Other Income - Non Dividends	5,651	5,473	5,784	7,967	7,949
Other Income - Returns from Andium and Housing trusts	30,802	31,774	32,618	33,520	34,445
Total Other Income	59,069	58,866	60,779	64,560	66,264
Spring 2020 Forecast	59,767	59,521	61,247	64,676	67,793
Variation to Spring 2020 Forecast	(698)	(655)	(468)	(116)	(1,529)

The total forecast income in 2020 of £59.07 million represents a reduction of £0.7 million from the Spring 2020 forecast. Smaller variances are forecast for 2021-24. The main reasons for the variance is lower forecast returns from Island-wide Rates and lower investment returns from the consolidated fund.

The full forecast and variances are included as an Appendix.

Island-wide Rate

In light of the Coronavirus, the Island-wide Rates have been frozen at 2019 rates. The 2019 total of £13,286,384 will be used for the 2020 forecast subject to the parishes confirming any changes in rateable units. For 2021 onwards, the Annual Island-wide Rates Figure shall be the Annual Island-wide Rates Figure for the previous year adjusted by the percentage change in RPI taken from the Fiscal Policy Panel's economic assumptions as at August 2020.

This takes the Retail Price Index percentage for the given year and applies it to the previous year to reflect the 2021 – 2024 assumptions.

Dividends

The forecasts for dividends from States owned entities are based on the following assumptions:

- Jersey Electricity Company – no change in forecast dividends
- Jersey Water – a 4.5% reduction in dividends in 2020 now that financial performance is clearer
- JT Group – no change in forecast dividends
- Jersey Post – continuing no forecast dividends during 2020 and 2021 and no change in forecast dividends from 2022
- Ports of Jersey – continuing no forecast dividends for the period
- States of Jersey Development Company – continuing no forecast dividends for the period
- Andium Homes – a small 0.4% reduction to 2020 forecast income as legally binding amounts based on RPI figures
- Housing Trust – no change to forecast due to contracted sums.

These changes to forecasts represent a total reduction of £0.2 million in 2020 compared to the Spring 2020 forecast.

The dividends are paid according to the defined dividend policies and forecasts are prepared in line with the company's latest business model. In most cases the dividends are directly related to trading performance but can be affected by particular projects being undertaken.

These forecasts are based on the assumption of a decline in the economy until the end of Q3 2020, with a sharp recovery. Forecasters have also considered the shorter three month decline in the economy and a slower recovery, but consider that both scenarios give similar outcomes. The longer-term scenario is considered to be slightly worse but the difference is not material.

Forecasts are not based on detailed analysis of the financial forecasts from each company and through our conversations with them they have indicated that such forecasts would be too difficult to prepare in the current climate. These projections therefore come with a significant caveat that they could be revised and more likely to the downside once the full impacts of the Covid-19 pandemic materialise and are understood.

Table 2 – Autumn 2020 Dividend forecast

	2019	2020	2021	2022	2023	2024
	£'000	£'000	£'000	£'000	£'000	£'000
Jersey Electricity	3,622	3,442	3,634	3,805	3,997	4,197
J.N.W.C.	2,217	2,062	2,194	2,230	2,267	2,305
SoJDC	2,000	-	-	-	-	-
Jersey Post	62	-	-	149	186	291
Jersey Telecom	5,969	3,826	2,305	2,384	2,468	2,554
Ports of Jersey	-	-	-	-	-	-
Other Income - Dividends	13,870	9,330	8,133	8,568	8,918	9,347

Non Dividends

Non-dividends include other types of income, including investment returns on the Consolidated Fund and Jersey Currency Fund. It also includes tax penalties, miscellaneous fines, returns from the Jersey Financial Services Commission and Crown Revenue.

A significant part of the non-dividends income is the return of the Consolidated Fund and Notes Fund.

The Jersey Currency Fund is forecasting a negative return in 2020, but for income forecasting purposes, this is capped at zero. Positive returns are forecast in 2021 onwards which are retained in the Fund to recoup the impact of the negative returns in 2020. Once the Fund value recovers it is expected to return to paying Financial Returns. A recovery since the Q1 has improved the starting position of the Fund resulting in the Fund recovering sufficiently to pay financial returns earlier under these updated projections. Subsequent returns however are lower due to the impact of predicted negative interest rates.

The Consolidated Fund is expected to hold a lower cash reserve than by historic standards reflecting updated cash flows and the use of a revolving credit facility. Returns have been estimated based on an average £30 million holding, significantly lower than the £100 million average holding previously assumed. Cash earnings have also been significantly reduced with rates returns now falling negative across 2021, 22 and 23 based on updated interest rate projections by the Fiscal Policy Panel.

The forecasts for returns on the Consolidated Fund and Jersey Currency Fund are based on the following:

- It is assumed the average balance of the Consolidated Fund will remain stable at £30 million and invested, in line with its published Investment Strategy, in cash. Cash returns are negative until 2024 under FPP assumptions.
- The Currency Notes Fund balance is projected to continue to remain stable at circa £90 million, in line with previous assumptions. The Fund is invested, in line with its published Investment Strategy, in a defensive portfolio including 20% allocated to equity. No return from equity is assumed for three years from the beginning of 2020. Again, cash returns are negative until 2024 under FPP assumptions reducing returns.
- In the current climate, the forecasts should be treated with caution. The forecasts use the 10 year average returns from 31/12/18, provided in June 2019 by Aon. Aon are not in a position to provide reliable future market forecasts at the moment as a result of the ongoing uncertainty about Covid-19.

Table 3 – Autumn 2020 Non-Dividend forecast

	2019 £'000	2020 £'000	2021 £'000	2022 £'000	2023 £'000	2024 £'000
Investment Income - Return from Consolidated Fund	5,730	500	-	-	-	-
Jersey Currency Notes Surplus	2,365	-	-	300	2,100	2,100
Tax Penalties	924	1,000	1,000	1,000	1,000	1,000
Miscellaneous Loans*	156	77	64	57	441	420
Miscellaneous Fines	287	293	300	300	300	300
JFSC - Financial Services**	3,986	3,600	3,900	3,900	3,900	3,900
Crown Revenues***	274	181	209	227	226	229
Other Income - Non Dividends	13,722	5,651	5,473	5,784	7,967	7,949

Returns from Andium and Housing Trusts

The returns from Andium Homes and the Housing Trusts arise from the incorporation of the housing function in July 2014. Andium is obliged to make a return based on the transfer agreement and an agreed rental and return policy.

The return is influenced by the prevailing RPI with a cap and collar in place and the small variations in the latest FPP economic assumptions produce a small increase in the forecasts. Agreements are in place with the Housing Trusts that have moved to the 90% market rent level policy.

This income stream is intended to broadly offset the increases that would be required to the housing component of income support for those claimants in Andium or Housing Trust properties. Although it should be noted that these returns do not directly fund income support claims.

The only small outturn variance to the Government Plan 2020-23 forecast (Spring 2020) is in respect of the Housing Trusts due to fluctuations in the RPI and any transition to the 90% market rent levels.

The forward forecast is neutral compared to Spring 2020 forecast due to the contractual returns from Andium and the Housing Trusts within the agreements in place.

Table 4 – Autumn 2020 Returns from Housing Trusts forecast

	2019 £'000	2020 £'000	2021 £'000	2022 £'000	2023 £'000	2024 £'000
Andium Homes Return	29,673	30,474	31,389	32,173	33,010	33,868
Housing Trusts Return	274	328	385	445	510	577
Other Income - Returns from Andium and Housing trusts	29,947	30,802	31,774	32,618	33,520	34,445

Full Autumn 2020 forecast

	Outturn	Autumn 2020 Forecast (Gov Plan 2021-24)				
	2019 £'000	2020 £'000	2021 £'000	2022 £'000	2023 £'000	2024 £'000
Island-wide Rates	13,895	13,286	13,486	13,809	14,155	14,523
Jersey Electricity	3,622	3,442	3,634	3,805	3,997	4,197
J.N.W.C.	2,217	2,062	2,194	2,230	2,267	2,305
SoJDC	2,000	-	-	-	-	-
Jersey Post	62	-	-	149	186	291
Jersey Telecom	5,969	3,826	2,305	2,384	2,468	2,554
Ports of Jersey	-	-	-	-	-	-
Other Income - Dividends	13,870	9,330	8,133	8,568	8,918	9,347
Investment Income - Return from Consolidated Fund	5,730	500	-	-	-	-
Jersey Currency Notes Surplus	2,365	-	-	300	2,100	2,100
Tax Penalties	924	1,000	1,000	1,000	1,000	1,000
Miscellaneous Loans*	156	77	64	57	441	420
Miscellaneous Fines	287	293	300	300	300	300
JFSC - Financial Services**	3,986	3,600	3,900	3,900	3,900	3,900
Crown Revenues***	274	181	209	227	226	229
Other Income - Non Dividends	13,722	5,651	5,473	5,784	7,967	7,949
Andium Homes Return	29,673	30,474	31,389	32,173	33,010	33,868
Housing Trusts Return	274	328	385	445	510	577
Other Income - Returns from Andium and Housing trusts	29,947	30,802	31,774	32,618	33,520	34,445
Total Other Income	71,434	59,069	58,866	60,779	64,560	66,264

Full Spring 2020 forecast

	Outturn	Spring 2020 Forecast				
	2019 £'000	2020 £'000	2021 £'000	2022 £'000	2023 £'000	2024 £'000
Island-wide Rates	13,895	13,465	13,761	14,105	14,458	14,834
Jersey Electricity	3,622	3,442	3,634	3,805	3,997	4,197
J.N.W.C.	2,217	2,159	2,194	2,230	2,267	2,305
SoJDC	2,000	-	-	-	-	-
Jersey Post	62	-	-	149	186	291
Jersey Telecom	5,969	3,826	2,305	2,385	2,468	2,554
Ports of Jersey	-	-	-	-	-	-
Other Income - Dividends	13,870	9,427	8,133	8,569	8,918	9,347
Investment Income - Return from Consolidated Fund	5,730	300	200	300	400	600
Jersey Currency Notes Surplus	2,365	-	-	-	1,800	3,000
Tax Penalties	924	1,000	1,000	1,000	1,000	1,000
Miscellaneous Loans*	156	205	167	150	79	65
Miscellaneous Fines	287	293	300	300	300	300
JFSC - Financial Services**	3,986	3,900	3,900	3,900	3,900	3,900
Crown Revenues***	274	255	285	305	305	310
Other Income - Non Dividends	13,722	5,953	5,852	5,955	7,784	9,175
Andium Homes Return	29,673	30,593	31,389	32,173	33,010	33,868
Housing Trusts Return	274	329	386	445	506	569
Other Income - Returns from Andium and Housing trusts	29,947	30,922	31,775	32,618	33,516	34,437
Total Other Income	71,434	59,767	59,521	61,247	64,676	67,793

Variance Autumn 2020 v Spring 2020

	Variations to Spring 2020 Forecast				
	2020 £'000	2021 £'000	2022 £'000	2023 £'000	2024 £'000
Island-wide Rates	(179)	(275)	(296)	(303)	(311)
Jersey Electricity	-	-	-	-	-
J.N.W.C.	(97)	-	-	-	-
SoJDC	-	-	-	-	-
Jersey Post	-	-	-	-	-
Jersey Telecom	-	-	(1)	-	-
Ports of Jersey	-	-	-	-	-
Other Income - Dividends	(97)	-	(1)	-	-
Investment Income - Return from Consolidated Fund	200	(200)	(300)	(400)	(600)
Jersey Currency Notes Surplus	-	-	300	300	(900)
Tax Penalties	-	-	-	-	-
Miscellaneous Loans*	(128)	(103)	(93)	362	355
Miscellaneous Fines	-	-	-	-	-
JFSC - Financial Services**	(300)	-	-	-	-
Crown Revenues***	(74)	(76)	(78)	(79)	(81)
Other Income - Non Dividends	(302)	(379)	(171)	183	(1,226)
Andium Homes Return	(119)	-	-	-	-
Housing Trusts Return	(1)	(1)	-	4	8
Other Income - Returns from Andium and Housing trusts	(120)	(1)	-	4	8
Total Other Income	(698)	(655)	(468)	(116)	(1,529)

*Miscellaneous Loans – Certain loan interest was incorrectly included in the spring 2020 forecast. The position has been corrected in the autumn forecast, which leads to the variance shown above. The forecast for 2023-24 includes interest due from the loan to Blue Islands.

**JFSC Financial Services – the variance in 2020 reflects in-year data for 2020 which shows a forecast decrease in income.

***Crown Revenues – Certain income from Crown Revenues was incorrectly included in the spring 2020 forecast. The position has been corrected in the autumn forecast, which leads to the variance shown above.

Appendix F – Revised Terms of Reference for the Income Forecasting Group

Treasury and Exchequer

Revised Terms of Reference of the Income Forecasting Group

Purpose

The group is established as an advisory function on the forecasts of all States income from taxation and social security contributions which will be informed by economic assumptions produced by the Fiscal Policy Panel with additional forecasts for other States income prepared by Treasury officers.

Objectives

To produce an absolute minimum of two forecasts each year

- A full review of states tax, social security contributions and duty revenue forecasts will take place following the provisional outturn and no later than May of each year.
- A further forecast to inform the Government Plan debate, including any revised economic assumptions and experience from the current year actual revenues.

To produce reports on the forecasts of states income from taxation and social security contributions, including:

- Forecasts for income tax revenues
- Forecasts for goods and services tax and ISE Fees
- Forecasts for impots duties
- Forecasts for stamp duties
- Forecasts for social security contributions
- Forecasts for other States income
- Economic assumptions used; and
- Factors and risks that should be considered

The forecasts will cover a period of at least four years and include a range within which a central forecast can be applied

Reporting

The reports will be presented to the Treasury and Resources Minister in advance of the Council of Ministers consideration.

Once a report is approved by the Treasury and Resources Minister it will be published alongside the Government Plan.

Other reports can be prepared on the request of the Treasury and Resources Minister.

Administration

All meetings will be minuted with agreed actions.

Quorum – at least six members be present for the meetings to be considered quorate. In exceptional circumstances a delegate may be appointed by an official, however external members cannot delegate.

Quarterly internal review meetings will also be held.

Any variations to the group membership once established are to be agreed by the Treasury and Resources Minister or Chief Minister.

It will be the responsibility of the Chief Executive and Treasurer of the States to ensure that the group has sufficient resources to fulfil its responsibilities.

Administration

The members of the group are:

- Director General, Treasury and Exchequer (Chair)
- Director General, Customer and Local Services
- Comptroller of Revenue
- Group Director, Financial Services and Digital Economy
- Group Director, Strategic Finance
- Deputy Comptroller of Revenue
- GoJ Chief Economic Adviser
- GoJ Economist
- At least two external members appointed by the Treasury and Resources Minister

The meetings of the group may be attended by the following officers in a supporting role:

- Head of Finance Business Partnering
- Revenue Accountant
- Tax Policy Unit Officer (secretary)

The group will invite other officers and external advisers to attend as appropriate which will be documented.

The group will operate independent of any political influence.



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