

STATES OF JERSEY



RETAIL TAX: RESCINDMENT OF STATES' DECISION

Lodged au Greffe on 12th March 2018
by Senator P.F.C. Ozouf

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion –

- (a) to refer to their Act of 30th November 2017, in which they adopted the Draft Budget Statement 2018, and their Act of 28th November 2017, in which they rejected an amendment to the Draft Budget Statement 2018 which sought to provide that the new Income Tax levied on large retailers be levied at the rate of 10% rather than 20%, to rescind that part of the Budget Statement 2018 which enabled that new Income Tax to be levied at 20%, and to agree in principle that the new Income Tax levied on large retailers be levied at the rate of 10%; and
- (b) to request the Minister for Treasury and Resources to bring forward the legislation necessary to implement this decision.

SENATOR P.F.C. OZOUF

Note: In accordance with Standing Order 23 (Additional requirement for proposition to rescind earlier decision), this proposition has been signed by at least 3 States Members in addition to the proposer.

- 1. Connétable of St. Helier
- 2. Deputy M.J. Norton of St. Brelade
- 3. Deputy G.J. Truscott of St. Brelade
- 4. Deputy S.M. Wickenden of St. Helier
- 5. Deputy A.D. Lewis of St. Helier.

REPORT

The States [rejected P.90/2017 Amd.\(4\)](#). Part V of the amendment stated –

“the new Income Tax levied on large retailers is levied at the rate of 10% rather than 20%, reducing estimated income by £2,800,000;”

Background

The original report proposed a variety of measures which, if adopted, would have more than funded all the revenue necessary to reduce the proposed 20% Retail Tax to 10%.

The debate was an important one, and concerned the sector which employs more people than any other outside the Finance sector, and which produced £149 million in GST receipts for the States between 2008 and 2015.

The scale of this sector in terms of its contribution to employment and tax collected, quite apart from the essential role it plays in providing goods to all Islanders, cannot be understated.

Any decisions regarding this sector’s competitiveness and the level of investment required to sustain it and its effect on the cost of living should be taken with the greatest of care.

All the evidence pointed to a certain increase in the cost of living, which would be felt particularly acutely in the grocery sector.

The issue of the creation of an unlevelled playing-field amongst retailers became an uncomfortable position for many Members.

All the Jersey business groups and associations made strong representations that the imposition of a 20% tax had not been thought through, and they universally said it was an unwise decision.

The Jersey Retail Association had been recently formed and expressed deep concerns about the 20% and its effect on investment and prices – although 10% would have had an effect, they believed that if a tax was to be introduced – a 10% rate and one which would only affect the largest retailers, would have been an acceptable compromise.

The Chamber of Commerce, the Island’s largest independent business organisation, expressed their concerns about the 20% rate, but agreed that a 10% rate properly introduced would be a compromise, and would place retail on a similar footing to the finance sector.

The work the Chamber have done since the debate has shone a light on the fact that no proper consultation took place. Certainly not over the 12-month period which Members were led to believe.

Warnings were given that if the cost could not be borne by the businesses themselves, the cost would be passed on in terms of higher prices. The cost of living has already increased due to the exchange rate volatility after Brexit, and a further self-imposed price increase would, moreover, damage confidence in Jersey’s much-valued, vibrant retail sector.

The accompanying report explained the effect on prices and set out the concerns that the tax would likely increase prices. The report stated –

“If fully passed on in prices, a 20% tax on profits would add ‘only 1–2% to the costs of goods sold by the retailers affected’.

The research that ... undertaken that the prices of goods sold by the companies affected if the 20% rate would be adopted would be in the region of 3%.

That is equivalent to an additional 3% GST for those customers who would continue to shop at those establishments.”

The report referenced the importance of a vibrant retail offering and evidenced that Jersey enjoyed one of the most vibrant and busy high streets in the British Isles.

Specifically, it argued that both Islanders and visitors benefited from ‘*A wide and diverse mix of local and non-local retailers.*’.

The report said ‘*Long may that continue*’.

The report referenced the Connétable of St. Helier and highlighted the work and the appointment of a ‘Town Centre Co-ordinator’, whose work had been extremely helpful to retailers.

“Empty shops ... have been encouraged to display art, and even pop-up shops have been allowed to occupy empty or transitioning retail premises.

Many people from Guernsey come to Jersey to shop because of the wide range of retail establishments we have.

This is despite a sector that has however been hugely affected by the emergence of online retail.

The truth is, that has resulted in falling rentals or at least stagnant rentals (which are sadly not reflected in lower rates bills due to lack of revaluation of Rates levied by the Parishes and some of which is paid to the Island-wide rate) which are now a reality.

Levying this indiscriminate tax is likely to act as a disincentive for retailing.”

My fears were not misplaced.

Whilst the original amendment recognised the importance of balancing annual revenue expenditure and proposed a number of additional revenue-raising measures which would, if agreed, have funded the reduction of 20% to 10% – it was accepted that such measures could raise revenue in the future – but they should be the subject of proper consultation, economic advice and business impact – this was accepted. It is hoped that that work is already underway, and that a careful extension to the 10% rate will be proposed to include on-licensed premises and gambling.

Those parts of the original report which addressed the alternative retail tax proposal are set out in **Appendix 1**.

The Minister for Treasury and Resources' justification

The report is set out in **Appendix 2 (original justification of the 20% proposal)**.

Although it was described as an economic report – and whilst I have a very high regard for the States' Economic Adviser – it has become clear that what was required was a full business impact report.

A tax at this level should have been proposed and explained with actual tangible evidence of what would happen to the retail sector in Jersey if the tax at 20% was implemented.

The report stated:

The Retail Tax was not properly consulted on.

It was stated that there had been appropriate consultation, that the sector had been consulted.

A Freedom of Information Request revealed the facts about consultation.

This is shown in **Appendix 4**.

The tax was not properly consulted on.

This is not good government, and the States were not informed that in reality the Retail sector had been told of the tax, not asked what the consequences of it would be.

This is little wonder the sector and its Retail Association have been so disappointed.

The Jersey retail sector concerns remain

The retail industry has been very clear about their severe concern in an article published in the Jersey Evening Post (“JEP”) of 2nd March 2018, as shown in **Appendix 5**.

The concerns of retailers cannot continue to be ignored.

Retailers who accepted a 10% tax as fair and in line with Finance remain extremely concerned about the consequences of the additional tax, which has not increased by 5% or 10%, but by a significant and unconsulted amount.

The retail sector in the United Kingdom and elsewhere

Since the start of the year and in recent weeks, there have been numerous media reports of more failures of High Street chains. This trend is set to continue.

There is a real concern that the pressure that the Retail sector is under, across the British Isles, and indeed globally, will continue.

When considering Jersey's Retail offering, decisions about its future cannot be taken without consideration being given to events elsewhere, and particularly their U.K. counterparts. The U.K. high streets have been decimated.

Town High Streets – with populations similar to Jersey – across the British Isles now experience severe problems.

It could be argued that the decision, which was unrelated – to introduce 0:10% and reduce the corporate tax on retail – was actually in hindsight at the time a real fiscal stimulus. If it hadn't been introduced, significant changes would have otherwise started to affect retailing in Jersey and would have seen St. Helier's high street fail.

There are a number of major retailers literally teetering on the brink. We need to provide every incentive to ensure that those retailers are not disincentivised to pull out of Jersey. If shops do fail through no fault of the Island – the fiscal Environment needs to be attractive to attract more investment and to boost investment of the existing retailers.

Do we want to see more retailers fail in Jersey because of the uncertainty of this tax?

Jersey will be not be unaffected by these trends, and the imposition of the 20% tax is likely to put Jersey traders in a worse position than they otherwise would be, moreover, in a very difficult trading environment.

The effect on grocery prices

The recent decision by a large local retailer, Sandpiper, to re-organise their distribution arrangements was welcomed as an opportunity to limit price increases and indeed to see falling prices.

With the rising cost of food, as a result of exchange rate movements following Brexit, this is welcome, but the reality was that more could have been done.

The JEP article is shown in **Appendix 6**.

Islanders' concerns about the cost of living

In recent months there have been a number of surveys about Islanders' views on matters of public importance.

The recent ComRes Poll is set out in **Appendix 7**.

Islanders are really concerned about prices and the cost of living, and the States needs to listen.

The 20% is increasing the cost of living, especially for groceries, and this **can be** reversed.

Fairness

As the debate last November continued, it became increasingly apparent that there was not going to be a level playing-field between those large retailers that would be caught by the 20% tax and those that wouldn't.

Many Islanders shop at the Island's Co-op. No-one wants to see the *Co-op* taxed on its profits if at all necessary.

This is an important institution, but it cannot be allowed to compete unfairly with commercial enterprises that need to retain confidence that the Island will treat all businesses on a level playing-field.

Having reviewed the provisions of the [Competition \(Jersey\) Law 2005](#) (the "Competition Law"), I believe that there is a justifiable case for a challenge to be made that the retail tax is being unfairly applied, because the provisions of the Competition Law apply to the States just as they do to any other entity.

Improved Public Finances

Great store has been set by the recent estimates of income tax. The cost of reversing this provision is clearly now affordable in the current year.

Urgency

It may well be argued that this matter can be left to the new States Assembly. However, this is a proposition which reverses the tax on profits arising this year. With the new Assembly being formed in June, it is inevitable that it will be the autumn before there is any opportunity for a reversal to the tax being brought for a debate.

This Assembly made this decision, and it is for this Assembly to reverse the decision based upon this new information.

Summary

The imposition of the 20% retail tax was always going to have a detrimental effect on the Island's vibrant retail sector.

It is now beyond doubt that the Retail sector was **not** properly consulted upon, and the industry deserves a proper consultation, as they *did* have with the alternative of 10%.

It is the Members of the current States Assembly who imposed this unilateral tax on large retailers. This proposition offers the opportunity for the Members of the current Assembly to reverse it in the interests of both retailers and, more importantly, consumers and the cost of living.

Knowing what we now know:

- Islanders have a heightened concern about the cost of living
- The imposition of this tax is going to increase the cost of living
- Retail trading conditions have worsened since the decision on the 20% tax.

There is every reason for this Assembly to reverse this decision and allow the new Assembly to reconsider the taxing of corporates in a fair and equitable way that does not cause such a rise in the cost of living.

A further addendum will be published shortly.

STATES OF JERSEY



**DRAFT BUDGET STATEMENT 2018
(P.90/2017): FOURTH AMENDMENT**

Lodged au Greffe on 15th November 2017
by Senator P.F.C. Ozouf

STATES GREFFE

2017

P.90 Amd.(4) (re-issue)

PAGE 2, PARAGRAPH (a) –

At the end of paragraph (a) insert the following words –

“except that –

[Other proposals rejected and not relevant to this proposition have been removed.]

(v) the new Income Tax levied on large retailers is levied at the rate of 10% rather than 20%, reducing estimated income by £2,800,000;”.

SENATOR P.F.C. OZOUF

**Extracts from the accompanying
REPORT**

Summary

The main purpose of this amendment is to reduce the proposed Retail Tax from 20% to 10% which is shown in part (v).

The loss of revenue that the Treasury has calculated as £2.8 million.

I have worked hard to identify a number of additional revenue-streams in order to fund this reduction.

In doing so, a number of the additional revenue-raising proposals have been identified, which may in themselves find favour as standalone proposals.

The alternative measures are designed to be fairer, and taken together with my other Budget amendments – are designed to ensure that the cost of living of Islanders is lowered, which will have an important beneficial effect on all Islanders whether they are students, in work or retired.

[...]

The total revenue of the additional of replacement measures on an annual basis would be sufficient to meet the reduction in revenue.

Background

In last year’s Budget 2017, Senator S.C. Ferguson proposed –

“(e)to agree in principle that from 2018 a 20% tax on profit should be applied to all large retail businesses operating in Jersey, whether owned by Jersey resident companies or by non-resident companies, where taxable profits are above GBP 500,000 per annum providing this does not pose a risk to the zero-

ten regime and to direct the Minister for Treasury and Resources to bring forward the necessary legislative changes for debate by the Assembly during 2017;”.

The following report was attached –

“This amendment is intended to expedite taxation legislation equivalent to that existing in Guernsey and the Isle of Man. It should solve the conundrum of inequitable taxation between all retail organisations owned by local residents and those owned by corporations outside the Island. This has been a matter of concern for Islanders from some time and this particular piece of legislation should go some way to assuaging that concern. The Guernsey proposition is attached as an Appendix. It can be seen that this is a simple piece of legislation. The BEPS (Base Erosion and Profit) Project initiated by the OECD and to which the Crown Dependencies are signatories may well affect the taxation income from these sources in the future. In the meantime this particular amendment will make a level playing field in the retail sector.

Financial and manpower implications

There are no manpower implications. The financial implications will simply be an increase in States income which is difficult to define at this time.”

The Minister for Treasury and Resources has proposed the Retail tax because of this proposal.

The purpose of this amendment is to provide an alternative.

Retail Taxes in Guernsey and Isle of Man

The justification of the adoption of a new retail tax is that it has been introduced in the other Crown Dependencies.

The Isle of Man has introduced a Retail Tax at 10%.

Guernsey has adopted a Retail Tax of 20%.

However, both islands have important and different aspects to their economies.

The Isle of Man is subject to the same rates of United Kingdom Value Added Tax and Duties (which we call impôts) so have the higher rate of 20% VAT and higher duties than the UK, in effect a common purpose arrangement.

Guernsey, despite a number of suggestions for its introduction, does not apply Good and Services Tax.

Discussion – who pays tax companies or individuals?

Economists always remind us that companies don't in themselves pay tax, but people do.

The reality is that ultimately someone will pay the tax collected by the company or other non-natural entity.

There are only 3 possible classes of real people who will ultimately pay –

1. Shareholders or owners
2. Employees of the company
3. Consumers.

The effect on prices

I am gravely concerned that the result of this additional tax will be higher prices. The Treasury conceded this. On page 143 of their Budget documents they state –

‘if fully passed on in prices, a 20% tax on profits would add ‘only 1-2% to the costs of good sold by the retailers affected’.

The research that I have undertaken that the prices of goods sold by the companies affected if the 20% rate would be adopted would be in the region of 3%.

That is equivalent to an additional 3% GST for those customers who would continue to shop at those establishments.

The importance of a vibrant retail offering

Jersey enjoys one of the most vibrant and busy high streets. A wide and diverse of local and non-local retailers. Long may that continue.

The Connétable of St. Helier should be congratulated for his work and the appointment of a ‘Town Centre Co-ordinator’, a proposal which was originally an initiative of Economic Development in or around 2006.

Empty shops, to the extent of their remaining empty, have been encouraged to display art, and even pop-up shops have been allowed to occupy empty or transitioning retail premises.

Many people from Guernsey come to Jersey to shop because of the wide range of retail establishments we have.

This is despite a sector that has however been hugely affected by the emergence of online retail.

The reality is, that resulted in falling rentals or at least stagnant rentals (which are sadly not reflected in lower rates bills due to lack of revaluation of Rates levied by the Parishes and some of which is paid to the Island-wide rate) are a reality.

Levying this indiscriminate tax is likely to act as a disincentive for retailing.

The importance of continued investment in Retail

Continued investment in retail is absolutely vital.

To impose a tax at 20% will restrict the ability of major retailers to invest.

In fact the 20% may result not only in **higher prices** but investment in retail **falling**.

The Finance Sector and its 10% Special Rate of Tax

The arguments as to why the Island is unable to levy a 10% General Rate of tax are well known to Members.

The Island's 0% General Rate of tax is of vital importance to the financial and business services sector.

Nothing should be done to compromise the General Rate of tax.

However, exemptions can be made, and one is made to levy a special 10% on Regulated Financial Services Providers, they make up a small number of businesses in themselves.

Fairness of treatment

The Retail Sector do not feel it is fair or reasonable to charge their sector, albeit that there are tests of turnover and profit included in the proposal.

A 10% rate of tax would put the limited number of Financial Services providers on the same footing as the finance sector.

[...]

Extension to the whole liquor trade

If large off-licence traders are to be taxed on their profits, then I see no reason not to include the profits of on-licence businesses and off-licence businesses should not be treated on the same basis.

There are concerns about the margins on liquor sales in the on-licence sector and I have lodged an additional proposition to investigate this sector.

Figure 10 of the main Budget proposal showing the ever and ongoing widening of the on-licence alcoholic beverage should be of concern to all Members.

Here are the margins from the Budget 2011 Report –

Comparisons with neighbouring jurisdictions

Figure 7.4: 2011 Retail price margins – comparisons with the UK (June 2011)

	Jersey Retail Price	Jersey Duty	GST	Price net of duty & GST	Duty & GST as % of price	UK Retail price	UK Duty	UK VAT	Price net of duty & VAT	Duty & VAT as % of price
Litre of Whisky	£20.07	£9.95	£0.96	£9.16	54%	£17.00	£10.21	£2.83	£3.96	77%
Pint of standard Beer	£3.45	£0.30	£0.16	£2.99	13%	£3.50	£0.47	£0.58	£2.44	30%
20 King Size Cigarettes	£5.95	£3.50	£0.28	£2.17	64%	£6.84	£4.07	£1.14	£1.63	76%
Litre of Unleaded Petrol	£1.26	£0.43	£0.06	£0.77	39%	£1.36	£0.58	£0.23	£0.56	59%

Here are the margins as shown in Figure 10 of the 2018 Budget –

FIGURE 10 – 2017 retail price margins – comparisons with the UK (June 2017)										
	Jersey Retail Price	Jersey Duty	GST	Price net of Duty & GST	Duty & GST as a % of price	UK Retail Price	UK Duty	UK VAT	Price net of Duty & VAT	Duty & VAT as a % of price
Litre of whisky	£20.96	£14.04	£1.00	£5.92	72%	£21.00	£11.50	£3.50	£6.00	71%
Pint of standard beer	£3.56	£0.36	£0.17	£3.03	15%	£3.06	£0.49	£0.51	£2.06	33%
20 king size cigarettes	£8.38	£5.75	£0.40	£2.23	73%	£9.52	£5.73	£1.59	£2.20	77%
Litre of unleaded petrol	£1.11	£0.47	£0.05	£0.58	48%	£1.16	£0.58	£0.19	£0.39	66%

FIGURE 11 – Comparison of typical 2017 tax and duty levels for a range of commodities (June 2017)					
	Jersey Duty	Jersey GST at 5%	Guernsey Duty	UK Duty	UK VAT at 20%
Litre of whisky at 40% abv	£14.04	£1.00	£13.58	£11.50	£3.50
Bottle of table wine	£1.49	£0.34	£1.79	£2.16	£1.00
Pint of beer/lager at 4.5% abv	£0.36	£0.17	£0.43	£0.49	£0.51
20 king size cigarettes	£5.75	£0.40	£4.41	£5.73	£1.59
Litre of unleaded petrol	£0.47	£0.05	£0.64	£0.58	£0.19
Litre of diesel	£0.47	£0.05	£0.64	£0.58	£0.20

These tables show that the margin differential in off-licensed alcoholic drinks has improved, and the net prices in Jersey are almost identical to the United Kingdom.

The situation for the net price in tobacco has also improved and net prices are almost at the same level as the UK.

The situation for remains a problem – and the evidence from similar-sized islands provides evidence of these concerns.

The most startling differential is that from the on-licensed trade. The example of a pint of beer shows that net of duty and tax, a pint of beer is 97p higher in Jersey than in the United Kingdom.

Does it really cost an additional 97p to serve a pint of beer in Jersey?

The fact that the Treasury has identified that extension of a 10% rate of tax to Taverners licence-holders would yield £450,000 indicates powerfully that despite the annual refrains from the liquor companies that complain vociferously against annual duty increases, this number sheds new light on the fact that even with the profit test of over £500,000, and that this will affect only companies with turnovers of over £2 million, their profitability must be in the order of £4.5 million.

That is probably a conservative number, as it has been said that one large pub chain has profits across the Channel Islands of over £20 million.

Extension of the retail tax at the lower rate of 10% would only affect those large groups and not small businesses.

It provides an important contribution to permit the lowering of the retail tax at to 10% and will ensure all large liquor vendors – whether they be on-licences or off-licences – are treated equally.

The review which is the subject of another amendment is also an important part of getting to understand the reasons for what seem very high margins, and seeks recommendations to improve the consumer prices, to maintain a vibrant night-time economy, and is also complementary to the important work of the Assistant Minister for Economic Development, Tourism, Sport and Culture, the Connétable of St. Brelade, and Senator P.F. Routier, O.B.E. as Assistant Chief Minister, who have overseen the important new Licensing Law amendments.

Extension of the 10% Financial Services Special 10% Rate to Licensed Betting bookmakers

Many people I have consulted have been surprised to learn that in fact, whilst there are some fees charged by the Jersey Gambling Authority, their profits are not taxed at the same rate as Regulated Financial Services.

Gambling does have an effect on some people's lives to a deleterious effect.

As a standalone Proposition, it could be argued that this is one sector that should be the subject of a special rate of tax because of the impact on society that gambling has.

Particularly people who can least afford it.

Whilst there are arguments as to the extent to which the retail tax would increase prices it is hard to see how betting shops would pass on the tax to users of betting services.

I have no doubt the sector will make its representations prior to the budget debate, but I remain resolute in believing that this is a sensible and proper extension of the special 10% right and without the turnover and profit test that will be applicable, if approved, for retail.

I have not sought at this stage to extend the 10% rate to online gaming. I do have concerns about the emergence of the sector in Jersey, as in my view it sits somewhat uncomfortably with the activities of our Financial Services sector.

But apart from the fact that jurisdictions have already established well-regulated e-gaming activities, Islands develop specialisations and should focus on what they are good at.

This is a matter which will no doubt be the subject of further debate, but the fact that the High Street betting shop should be taxed is a reasonable one, and I hope it finds favour with Members.

Extract from last year's Budget debate

In proposing her amendment, Senator Ferguson made the following remarks –

“I will make no apologies for a quick look at the background of this because I think that most Members in this Assembly now were not here at the time when the original Zero/Ten came in.

All the Crown Dependencies started with the implementation of the Zero/Ten policy.

All the Crown Dependencies recognised the inequity of the position with regards to overseas companies trading in the Islands, but they felt powerless to do anything about it at that time.

There were 3 fairly comprehensive scrutiny reports, which discussed the matter. It was recognised that a Jersey branch of a U.K. (United Kingdom) company, the full profits would be taxable in the U.K. as soon as they are earned.

But in the case of a U.K. group with a Jersey subsidiary, the subsidiary will pay no tax in Jersey and the group would only pay tax when its profits are paid to the U.K. parent as a dividend. A dividend would attract tax, so there is a strong incentive to avoid receiving dividends from Jersey subsidiaries. The profits could be reinvested tax-free either in Jersey or elsewhere in the group or extracted by way of a loan to the parent group.

For instance, there is a large department store in the Island, which is, when I last looked, owned through a Luxembourg subsidiary. For businesses owned outside the U.K. the treatment would vary, but it does seem likely that a Guernsey company would be able to avoid or postpone for a long time any tax on its Jersey operations.

Off-Island owned trading companies will pay no Jersey tax and therefore they will be able to avoid or delay paying tax elsewhere. This gives them an unfair advantage over locally-owned businesses and it also means that Jersey businesses will be more valuable to off- Island investors than they are to Jersey residents and it gives a tax advantage, as I have said, to off- Island investors, which would only accelerate the current trend for Jersey businesses to be sold to non-Jersey investors, all pretty prescient I would say. In S.R.14/2007, the Corporate Services Scrutiny Sub-Panel followed up one of the major concerns identified in its reports, this fact that non-Jersey owned businesses would escape tax liability in Jersey.

The panel and their adviser adapted a proposal originally submitted by Jurat Blampied – the Blampied Proposal – for a tax on owner-occupied business property as a workable solution. The Minister for Treasury and Resources acknowledged that the proposal had some merit and agreed to investigate the economic impact and the potential yield. The result was the Draft Income Tax (Amendment No. 32) (Jersey) Law 200-, which was lodged on 21st October 2008. As a result of the various elections to panels and ministerships following the election, an agreement was reached between the Minister and the Scrutiny Panel that, after the legislation had been reviewed by the new panel, it would be debated.

The debate was scheduled for March 2009. The new Minister and the Scrutiny Panel adhered to that agreement and the then current Corporate Services Panel presented their report to the States.

The panel was greatly disappointed that no substantive work had been done by the Treasury concerning the implications of the comments made by the panel in 2008. It appeared that the onus had been put on Scrutiny to justify the progression or lack

thereof of this piece of legislation. Certainly the panel has received no evidence of further consultation and, apart from some indicative work done by the Tax Department, there is no detailed evidence to support the Minister's reluctance to introduce the deemed rental amendment.

The conclusion was that there were 2 main issues inherent in the proposal, the first was that all businesses profiting from their activities in Jersey should contribute to the Island. This is eminently fair. The second issue was that of equity between non-finance local and foreign-owned trading companies.

This question of equity for local businesses remains extremely important and must be addressed, it still goes on. The panel was of the opinion that the deemed rental concept had much to commend it, but it did depend on the availability of the information. The biggest problem, as was pointed out by the Comptroller of Taxation, was that the information was difficult to access and was incomplete.

As most comptrollers are only too happy to collect as much tax as possible, I must consider that his regret over this was absolutely genuine. The Treasury estimated that Zero/Ten proposals would cost the Island £10 million to £12 million in lost tax revenue from foreign-owned non-finance companies. The department also estimated, this was at the time of the report, that the deemed rent tax would recover about half that sum, some £4 million to £6 million. So, for nearly 10 years we have had a tax policy, which is incredibly inequitable for local businesses and encourages local owners to sell out to foreign firms.

I cannot blame them, but it would be nice if we retained some local ownership of local businesses and all we have done is wring our hands and say: "Woe is me", or whatever is the political equivalent. In the meantime, the Isle of Man produced a 'Tesco tax' in 2013 and Guernsey produced an amendment to their budget legislation in October 2015 and all we hear is words, not deeds.

I ask the Assembly to support me in this amendment so that we can start producing deeds, not just words."

Senator Ferguson's proposal was amended by the Minister for Treasury and Resources, who successfully replaced the words "taxable profits are above GBP 500,000 per annum" to "annual taxable profits exceed a certain threshold (which is to be determined during 2017)".

He explained –

"I have already said publicly on many occasions so far that we are considering broadening the scope of companies that pay tax in Jersey. I am actively looking for a way to tax the profits of larger retail businesses.

At the moment, such businesses in Jersey are of course zero tax rated, whether they are locally or non-locally owned. In making any changes, we have to protect the internationally compliant status of the Island's Zero/Ten corporate tax regime.

That means not discriminating between locally and non-locally owned businesses. So any taxation, just to emphasise the point, or any changes to the corporate

taxation regime, requires that both locally and non-locally businesses are treated exactly the same.

It does mean that most companies and most profits must be taxed. The Zero/Ten regime states and makes it absolutely clear that the majority of companies and the majority of profits must be taxed at the zero rate to maintain that compliance.

Now the wording of the Senator's amendment is very specific, it is a copy in fact of the retail tax introduced in Guernsey in 2016, and although the tax models used by Guernsey, and for that matter the Isle of Man, are useful starting points, they might not be appropriate for Jersey, as our finance sectors differ in a number of different ways.

If we are to make a properly-informed decision about how to broaden our tax base, we need to first be in a position to gather evidence on company profits.

We need to know how many companies and what percentage of profits are taxed at zero compared to those taxed at 10 per cent and 20 per cent.

Now, we have already started gathering this evidence, in fact the process started long before the Senator lodged her proposition. So this is something that has been in train and is ongoing and it resulted from the fact that we made changes to the 2015 Corporate Income Tax Return form to allow us to collect the information necessary from companies and by exchanging also information with the Jersey Financial Services Commission.

You cannot get the information necessary on company profits without going through an appropriate process in the income tax return form and information exchanged with the J.F.S.C. (Jersey Financial Services Commission) are the routes and they take a small amount of time obviously before that can be completed.

My Budget proposals, of course Members will be aware, will allow the Taxes Office to collect the profit data from all companies, which are taxable in the Island, as a result of that. Based on that information, I will work with Treasury officials to determine whether it is safe to propose a change to the taxation of larger retail businesses in Budget 2018.

It is a point that the Senator herself makes in her proposition that to bring forward the proposal, providing it does not compromise our corporate tax system, and so we are agreed on that point. So my amendment to Senator Ferguson's amendment gives the Treasury quite simply more flexibility to use the data gathered from the company tax returns when we have received it to develop a solution that is evidence-based and is appropriate for Jersey and the makeup of Jersey corporate profits.

We are simply saying that, by removing the sum taken or applied in Guernsey of half a million pounds of profits, we do not know at the moment, because we do not know the profit levels, whether half a million pounds is right. It might be higher than that. It might be that we have to reduce it to a figure lower than that.

We do not know at this stage because the corporate profit information is not available here in the Island, so we want the flexibility, when the data is collected, to be able to set it at an appropriate level.

But what I can say to Members is we are committed to looking at ways of expanding the scope of businesses that we can bring within the corporate tax net to address some of the issues that the Senator has rightfully raised. Latest data that we have in Treasury suggests that the tax leakage, if I can put it that way, that is between non-locally owned companies trading in the Island where the profits go off-Island, those profits of course are still going to be taxed in the jurisdiction where the shareholders reside, but it is revenue that is lost to the Island and we think that tax leakage amounts to around about £7.5 million to £8 million a year.

The measure of expanding the scope of Zero/Ten will help us to close that gap. It is again a matter of fairness as well as a matter of generating some additional revenue and making sure that we do not have leakage in our corporate tax system.

So my amendment to the Senator's amendment is simply saying: 'Yes, we agree with the principle; yes, we want to do it; yes, we are doing it, we have started the process of collecting the data with the intention of bringing back a firm proposal in Budget 2018.'

But we do, and I would urge Members to support the fact that we want to have the data first, which will come as a result of the new information from the 2015 corporate tax returns, which will be then analysed by the Treasury Department and allow us to bring forward an informed proposal of the exact levels that we need to apply and on the basis that we are able to proceed because we do not damage the Zero/Ten corporate tax system."

Financial and manpower implications


The financial and manpower implications of this proposal are clear in terms of the additional revenue raised.

It should be stated that the report indicates that a figure of £200,000 has been indicated in order to ensure compliance for the tobacco element of the proposal.

There will be some additional work for the Income Tax Department with the extension to the gambling and liquor trades.


Budget Statement 2018

(P.90/2017: as amended following the States' debate of 28th–30th November 2017)
Appendix 11 – Economic and distributional analysis of the proposed extension of corporate tax



States
of Jersey

Budget Statement 2018 (as amended)



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

Summary

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

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

[Large retailers](#)

Economic impact

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

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

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

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

Distributional impact

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

143



Financial services

Economic impact

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

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

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

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

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

Distributional impact

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

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

Counterfactual

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



1. Introduction

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

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

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

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

The remainder of this report consists of four sections:

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

2. Background

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

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

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

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



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

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

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

3. Key concepts and experience elsewhere

3.1. Key concepts - economic impact

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

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

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

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

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

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

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

3.2. Key concepts - distributional impact

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



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

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

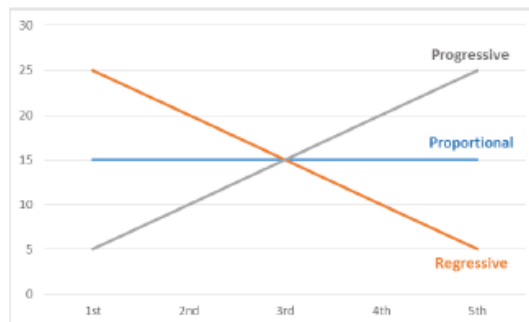
To get an understanding of how various fiscal measures impact on different parts of the income distribution it is possible to look at whether measures are:

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

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

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

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



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



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

3.3. Experience elsewhere

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

Isle of Man

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

Northern Ireland

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

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

Scotland

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

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

Guernsey

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

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

4. Impact of proposed tax on large retailers

4.1. Economic impacts

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

1. Create an incentive to avoid the tax.

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

148



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

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

Retailers will generally try to pass on the additional tax in prices, but companies in highly competitive markets (particularly where they compete with off-island/online retailers or smaller on-island retailers who will not face the increased tax¹⁶) may find it difficult to increase prices without an impact on their market share. This may result in reductions in other costs (potentially including reducing hours, lower wage increases or reducing staffing levels). Where some or all of the tax cannot be passed on in prices or offset with reductions in other costs, it may result in a reduction in profits.

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

Impact on prices

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

1. The retailers subject to the tax will often be competing against smaller retailers and against off-island retailers (for example online retailers), neither of which will face the increased taxes. Therefore any increase in prices would be likely to result in a loss of market share.
2. Some of the retailers affected are likely to be branches of large UK corporate retailers. These firms will often have national pricing structures. This makes it less likely that prices can be increased in a simple or cost-free way and it may be harder to justify any increases above UK levels to customers – given that corporate tax is already levied on this sector in the UK.
3. Locally-owned large retailers will have less incentive to increase prices as local shareholders will be able to offset the corporate tax against any personal tax they would otherwise have paid on the distribution/dividend of those profits. This is in the form of a credit, equal to the amount of corporate tax paid, so the net position for local shareholders will be unchanged in respect of their total personal income after tax. Further, this may mean that non-locally-owned large retailers find it more difficult to increase prices if they are competing with locally-owned large retailers in addition to smaller retailers and off-island retailers as per point 1.
4. Profits are generally a small part of the price of retail goods. In Jersey, gross operating surplus (a measure of profit used in national accounts) is thought to be around 6-7 per cent of total turnover for the wholesale and retail sector. Therefore even if fully passed on in prices, a 20 per cent tax on profits would add only around 1-2 per cent to the cost of goods sold by the retailers affected.

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



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

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

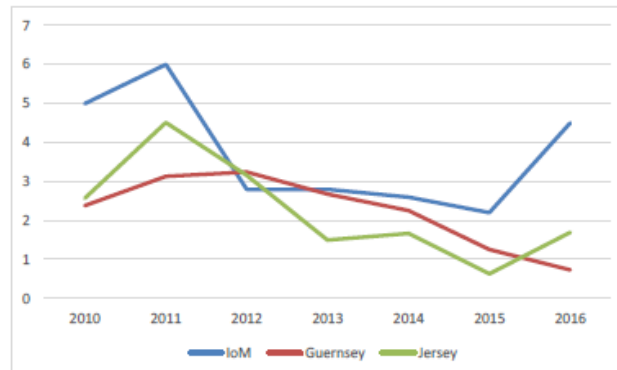
Any increase in the price level is likely to be a one-off increase unless it leads to higher wage demands. The potential small scale of any change in the overall price level may make this less likely.

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

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



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



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

Impact on other costs

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

An alternative might be to reduce labour costs through more automation. A recent report by PwC¹⁷ estimated that the wholesale and retail sector in the UK is one of the sectors most at risk from job losses through automation in the next 10-15 years, so any increase in corporate taxes may cause firms to accelerate their efforts to automate if there are cost-saving benefits. However, the increase in corporate taxes does not affect the relative price of labour versus capital so it is not clear that it would significantly change the incentives to invest or the pace of automation.

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

Impact on firms / economic output

If firms are unable to pass the tax on in prices or by reducing other costs, they may need to absorb the tax increase through reduced profits. At the margin, this may affect investment decisions – but given the size of the tax as a percentage of the overall cost base it is unlikely to be the sole reason for firms closing down or relocating. For a firm with a 7 per cent profit margin (average for the sector), the tax would make up a maximum of 1¼ per cent of total costs.

¹⁷ PwC (2017) Will Robots Steal Our Jobs? <http://www.pwc.co.uk/economic-services/ukey/pwcukey-section-4-automation-march-2017-v2.pdf>



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

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

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

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

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

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

Source: UK Office of National Statistics

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

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

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



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

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

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

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

a. Distributional impact

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

Figure 76 - Retail subsectors likely to be affected

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

Source: Taxes Office

However, as outlined in section 4.1, firms will change their behaviour to respond to the tax. Depending on the response, this will cause the cost to ultimately fall to different groups of individuals.

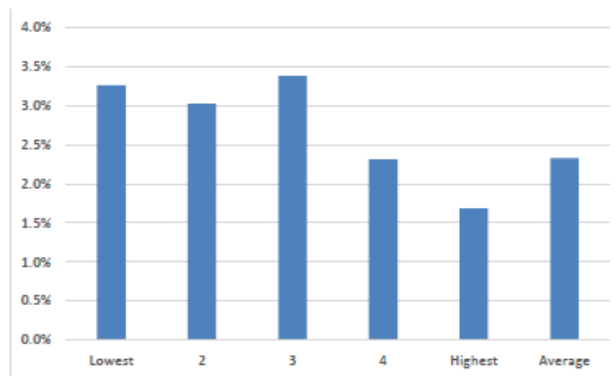
If the firm decides to cut employment costs and reduce activity, this will have different distributional impacts depending on who the employees are and whether the same or different individuals are able to move into smaller retailers who may expand to take on some market share freed up by the larger retailers.

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



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

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



Source: Jersey Statistics Unit

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



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

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

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

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

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

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

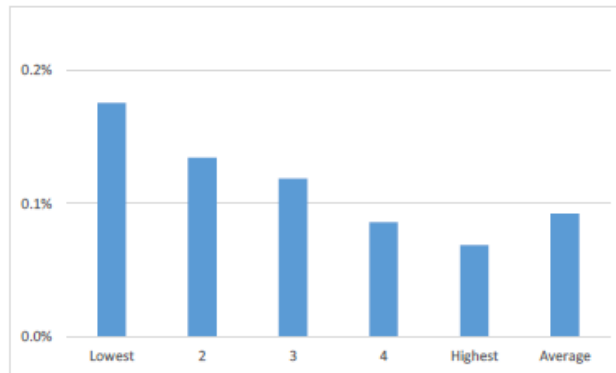
However, as set out in section 4.1, the impact on prices is likely to be very small. If prices as a whole were to rise by ½ per cent for the sectors identified then this would increase the weekly costs by £0.97 on average – ranging from around £0.60 for the lowest quintile to £1.62 for the highest quintile.

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

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



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



Source: Jersey Statistics Unit

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

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

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

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

a. Economic impact

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



Avoidance

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

Increasing prices

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

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

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

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

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

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



Cutting costs

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

Impact on firm/profits

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

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

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

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

b. Distributional impact

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

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

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

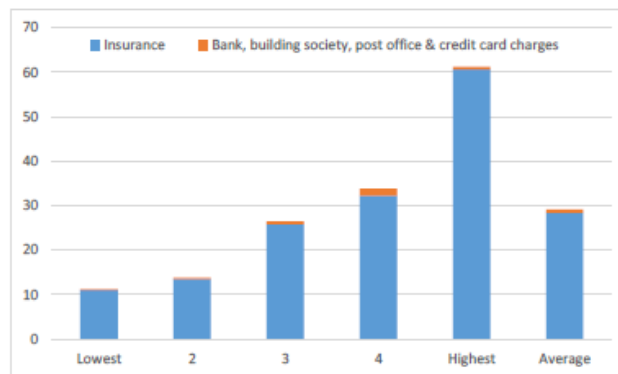


To the extent that the increased taxes are passed on through prices, the impact will be on customers – though this will hit different groups of customers to different extents.

While it is difficult to get any data on spending on the specific sectors affected, it is likely that a large proportion of this is from off-island customers – with a number of the businesses affected serving only off-island customers. That proportion of sales which are to on-island customers may see some prices increases which will result in additional costs for Jersey residents. However, as noted in section a, it is likely that there will not be significant prices increases as the ability for firms to raise prices will be limited for many of the firms affected.

It is possible from the income and expenditure survey to look at the amounts spent by Jersey households on insurance and on 'bank, building society, post office & credit card charges'. Figure 81 demonstrates that expenditure on insurance increases as income increases. Expenditure on bank, building society, post office and credit card charges is low for all quintiles but increases for the first four quintiles before falling again for the top quintile.

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



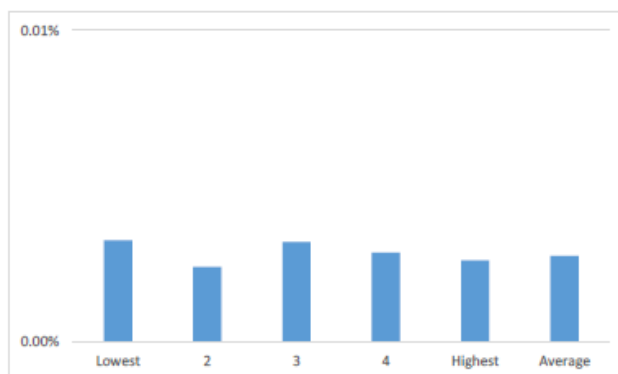
Source: Jersey Statistics Unit

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

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



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



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

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

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

4. Conclusion

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

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

1. A number of companies in both sectors are locally-owned and therefore the shareholders will receive a credit, reducing their personal tax bill by the amount of the tax. Therefore there will be no impact on the post-tax income of local shareholders.
2. Those firms which are not locally-owned may have limited opportunity to increase prices due to competing with firms who do not face an increase in tax – either because they sell in export markets / compete with off-island businesses or because they compete with firms who won't face increased taxes (e.g. smaller retailers).



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

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

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

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

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

Extract from the [Comments](#) of the Council of Ministers opposing the reduction of 20% to 10% ([P.90/2017 Amd.\(4\).Com.](#))

“Tax rate applied to large corporate retailers

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

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

- (a) the amount of profits taxable at 0% vs profits taxable at a positive tax rate; or
- (b) the number of companies taxable at 0% vs the number of companies taxable at a positive tax rate.

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

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

Impact on prices

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

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

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

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

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

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

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

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

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

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

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

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

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

	Jersey – annual % change ¹			Guernsey – annual % change ²		
	RPIX	Food	Clothing and footwear	RPIX	Food	Clothing and footwear
Dec. 2016	1.9	-1.2	1.8	1.6	-2.5	-2.5

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

Economic impact

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

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

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

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

Availability of the 10% tax rate

On the move to zero/ten it was identified that requiring financial services companies, which predominantly provide services to customers located outside the Island, and which operate highly mobile business models, to pay tax at 20% would make Jersey uncompetitive in this sector and might result in key businesses/employers relocating outside the Island. Having undertaken appropriate competitive analysis, it was

¹ See:

<https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20RPI%20Dec%202016%2020170120%20SU.pdf>

² See: <https://www.gov.gg/CHttpHandler.ashx?id=105604&p=0>

determined that applying a 10% corporate income tax rate specifically to financial services companies struck the balance between delivering the sector an internationally competitive tax rate and the need to raise revenue from the sector.

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

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

Consultation

A Freedom of Information request was submitted on what consultation had taken place with the Retail Sector

The release showed that there was no effective consultation.

Department	Freedom of Information
Author	States of Jersey
Issue date	20 Dec 2017
Status	Published
Cost	Prepared internally, no external cost

Request

During the 2018 Jersey Budget Debate on 30 November 2017, when the Treasury Minister was summing up Senator Maclean made reference to a consultation which he and his department had carried out with regards the new 20% Retail Tax.

I would like to know the following information:

- the names of the 30 companies contacted
- the names of the people contact at each of the 30 companies
- the date which the 30 invitations were sent
- a copy of the written invitation
- how were the invitations sent (e.g. email or post)
- the names of the 10 retail companies which engaged and attend the consultation meeting
- a copy of the meeting agenda
- what attempts were made to ensure complete engagement with the subsequent 20 companies
- what form did the consultation take? Such as round-table discussions, questionnaires, impact assessments and so on
- I would like to see a copies of all documents, regarding the 20% retail tax, that were presented to those retailers who attended the consultation meetings
- the Minister said the consultation had taken place one year before the budget. What other forms of consultation were carried out during that twelve month period?

I would also like to see a copy of all supporting fiscal analysis and research, which was used to produce the retail tax appendix in the 2018 Jersey Budget.

Response

The States Assembly resolved “in principle” to subject large corporate retailers to a positive rate of corporate income tax in December 2016 as part of the Budget 2017 debate, subject only to being satisfied that the introduction of such a measure would not “pose a risk to the zero-ten regime”. The voting can be viewed at the following link:

[Draft Budget Statement 2017](#)

Senator Sarah Ferguson originally proposed the taxation of large corporate retailers and based her proposal on the approach adopted in Guernsey from 2016; an approach which sees corporate retailers taxed at 20% on all their retailing profits once those profits exceed £500,000*. See link below:

* [Extract from Draft Budget Statement 2017 \(Fourth Amendment\)](#)

The Council of Ministers proposed an amendment, adopted by the States Assembly, which allowed for some flexibility in the final form of the measure (i.e. the measure introduced in Jersey need not be a carbon copy of Guernsey’s approach)**. See link below:

** [Extract from Draft Budget Statement 2017 \(Fourth Amendment\)](#)

The wording of the proposition adopted by the States Assembly is outlined below:

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

Correspondingly the work undertaken by the Treasury during 2017 focused on:

- ensuring that the proposed extension of the positive rate of tax to large corporate retailers would not pose a risk to the zero-ten regime; and
- considering the design of the taxation measure that would ultimately be lodged with the Assembly.

As part of this work, the Treasury examined the large corporate retailer taxes introduced in the Isle of Man and Guernsey; seeking the views from the tax authorities in both jurisdictions of their experiences, in particular regarding implementation challenges. The Treasury also discussed, on a confidential basis, the emerging proposals for the design of the taxation measure with the Island’s larger accountancy firms.

In addition, despite not being required by the decision of the States, economic and distributional impact analysis was commissioned to inform the considerations of Ministers and States Members and the resulting conclusions were published in Appendix 11 of the Draft 2018 Budget Statement***. See link below:

*** [Draft Budget Statement 2018](#)

Statistical information was provided by the Taxes Office to the Economics Unit under the provisions of Article 13 of the Income Tax (Jersey) Law 1961 in order to assist in the preparation of Appendix 11. The Comptroller of Taxes considers that publishing this information would be a breach of the Oath of Office with regard to the duty to maintain taxpayer confidentiality. Consequently, it is considered Absolutely Exempt Information

under Article 29 (other prohibitions or restrictions) of the Freedom of Information (Jersey) Law 2011.

Following discussions at Council of Ministers' meetings in September 2017 the proposed taxation measure was at an appropriate stage in order to undertake closed consultation with those retail companies potentially impacted.

Clear proposals were presented to invited retail companies and representative bodies at two meetings on 20 and 21 September 2017, before the draft Budget Statement containing definitive proposals was lodged on 3 October 2017. A copy of the presentation is annexed to this reply.

Invitations to the presentations were sent on 15 September by email.

The invitation to these meetings is reproduced below:

Dear Sir / Madam,

Private and Confidential

As you may be aware in last year's Budget the States Assembly agreed the following proposition:-

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

Under this proposition the Minister for Treasury and Resources is required to bring forward appropriate tax changes in the forthcoming Budget (scheduled to be lodged on 3 October 2017). The Minister is currently finalising his proposals and is seeking to engage with potentially impacted companies in advance of the Budget being lodged.

As such officers from the Treasury will be hosting private and confidential briefings on the current proposals on Wednesday 20 September 2017 from 2pm – 3pm and Thursday 21 September 2017 from 2.30pm – 3.30pm at a venue (in town) to be confirmed.

If you wish to attend one of these briefings please notify [name redacted].

As part of the presentation, there was an invitation to raise any significant policy issues with the Minister for Treasury and Resources.

Where retail companies were unable to attend one of these briefings there was an opportunity to arrange private briefings; one retail company took up the opportunity of a private briefing.

It is also noted that the Budget proposals are lodged with the States Assembly for a period of eight weeks to allow additional time for scrutiny of the Budget proposals by States Members, interested parties and the general public.

The Comptroller of Taxes considers that exposing the names of the retail companies who were invited and/or who engaged with the Treasury would be a breach of the Oath of Office with regard to the duty to maintain taxpayer confidentiality. Consequently, it is considered Absolutely Exempt Information under Article 29 (other prohibitions or

restrictions) of the Freedom of Information (Jersey) Law 2011. The Comptroller notes that few retail companies have openly confirmed or denied whether they are affected by the measure.

Exemption applied

Article 29 Other prohibitions or restrictions

Information is absolutely exempt information if the disclosure of the information by the scheduled public authority holding it –

(a) is prohibited by or under an enactment; (b) is incompatible with a European Union or an international obligation that applies to Jersey; or (c) would constitute or be punishable as a contempt of court.

Members of the Income Tax office are prohibited from disclosing information by virtue of Part 3 and Schedule 1 to the Income Tax (Jersey) Law 1961 whereby the Comptroller (and Deputy) and Officers of that department take an Oath of Office before the Royal Court which provides, inter alia, that:

“you will not disclose any information which may come to your knowledge in the performance of your duties, except to such persons only as shall act in execution of the said laws and where it shall be necessary to disclose the same to them for the purposes of the said laws, or in so far as you may be required to disclose the same for the purposes or in the course of a prosecution for an offence against the said laws.”

Therefore, the information requested is absolutely exempt information under Article 29 of the Freedom of Information (Jersey) Law 2011, because the disclosure of the information by the Scheduled Public Authority holding it is prohibited by or under an enactment.”

Proposed taxation of larger corporate retailers

Briefings 20th and 21st September 2017

Private & Confidential: Policy in Development



Ground Rules

- Private and Confidential briefings
- Draft Budget being lodged on 3 October 2017 – this information is embargoed until that date
- Concerns about technical matters (Paul Bouteloup - P.Bouteloup2@gov.je)
- Concerns from a policy perspective Minister for Treasury and Resources (Alan McClean - A.Maclean@gov.je)



Introduction

In the 2017 Budget the States Assembly adopted the following proposition:

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

Accordingly the Minister for Treasury and Resources intends to bring forward proposals in the forthcoming Budget which is due to be lodged on 3rd October 2017.

Outline of proposed measure

- A definition of a "large corporate retailer" will be introduced into the Income Tax Law.
- Tax will be charged on the profits of "large corporate retailers" for year of assessment 2018 et seq.
- The rate of tax will be 20% subject to certain threshold tests and a tapering provision.

Definition of "large corporate retailer"

- Start by considering stand alone companies – i.e. not part of a group. Will return to group situations later in presentation.
- There will be two tests to determine whether or not a company is a "large corporate retailer".
- **Both** must be met in order to be a "large corporate retailer".
- Test must be considered for each year of assessment.
- Careful monitoring by border line companies.

Definition of "large corporate retailer"

- If both of the tests are not met company remains taxable at 0% of entirety of profits.
- Analysis of sales will be critical.
- Definition of retail is the supply of any goods for consumption or use but excludes goods sold by way of wholesale for the purposes of onward sale by way of trade or business.
- Retail will not include the supply of services.

Definition of "large corporate retailer"

Test 1

Is that 60% of the company's turnover from trade is derived from retail sales in Jersey;

- Important words:
 - a) "Turnover"
 - b) "Retail sales"
 - c) "Sales in Jersey"

Test 2

Is that the retail sales in Jersey are not less than £2m.

- Retail sales identified in test 1.

Tax calculation "large corporate retailers"

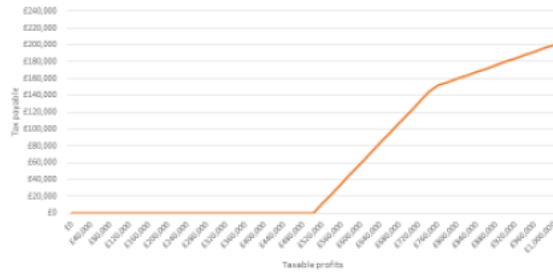
- Companies which are "large corporate retailers" will be required to prepare a computation of their taxable profits.
- This computation must include all of the company's taxable profits not just those from retail sales in Jersey.
- The amount of tax which will ultimately be paid by the "large corporate retailer" will be determined by the level of their taxable profits.

Tax calculation "large corporate retailers"

- Where the taxable profits do not exceed £500k per annum the tax rate applied will be 0%.
- Where the taxable profits exceed £750k per annum the rate of tax on all profits will be 20%.
- Where the taxable profits exceed £500k but are less than £750k per annum a tapering provision will apply. The effective rate of tax on profits will be on a sliding scale from 0% to 20%.

Tax calculation "large corporate retailers"

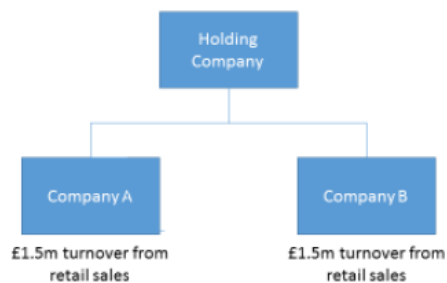
The following graph demonstrates the effect of the tax calculation.



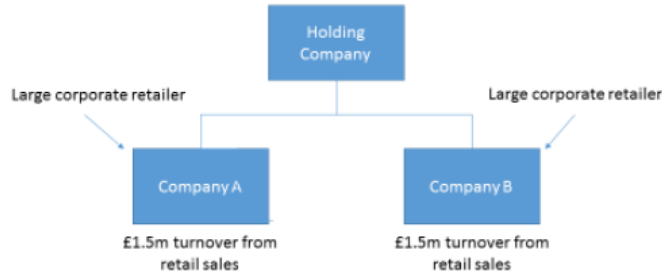
Associated companies

- Acknowledge that some retailers already operate within a group.
- Also to ignore group situations would provide an opportunity for avoidance.
- Targeted anti-avoidance provisions will be included within the new rules.
- Companies which derive 60% of their turnover from retail sales in Jersey and are owned by the same person or persons will be deemed to be "associated".
- If the aggregate retail sales in Jersey of the "associated" companies exceed £2m then all the "associated" companies are "large retail companies" and will need to prepare a computation of taxable profits.

Associated companies



Associated companies



Associated companies

- Will carefully consider structures entered into which seek to reduce the proportion of turnover from retail sales below 60%.
- Application of existing of general anti-avoidance provision where necessary.
- Businesses engaged in wholesale activity will have to maintain records which can separate wholesale turnover from retail turnover.

Tax calculation “associated” companies

- “Associated” companies will be required to aggregate their taxable profits.
- If the aggregate taxable profits of the associated companies do not exceed £500k per annum the rate of tax applied will be 0%. This rate will be applied to all of the “associated” companies.
- Where the aggregate taxable profits exceed £750k per annum the rate of tax will be 20%.
- If the aggregate taxable profits are £500k but are less than £750k a tapering provision will apply. The effective rate of tax on profits for all associated companies will be on a sliding scale from 0% to 20%.

Local ownership – availability of tax credits

- For the avoidance of doubt, these rules apply equally to companies which are ultimately owned by local and non-local individuals.
- Proposals are not discriminatory.
- Local shareholders will be entitled to a credit for any income tax paid by the company when they receive the taxed profits by way of dividend.
- This credit will reduce the personal income tax paid on the shareholder on the dividend.
- Effect for locally owned companies: an acceleration of the tax due on the profits.

30th Nov 17

1.2.20 Senator A.J.H. Maclean:

.....We still face challenges and therefore we do need to continue with our efforts to make sure that public finances are managed carefully as we move forward so that we can prepare for the uncertainties that we face. Senator Ozouf made a number of comments around the retail tax proposal and I know other Members have also raised this and it seems to be a matter of concern. As others have said, that measure was included in the Budget due to an amendment that was brought to the Budget last year by Senator Ferguson. We made it clear by amending her proposition that we needed to look, to assess whether it was going to be safe to introduce a measure of that nature with regard to our corporate tax system. That work has been undertaken in the intervening 12-month period. But it was not just whether it was safe from our corporate tax perspective, it was also to ensure that we understood what the impact of a measure such as that was going to be a retail. So we commissioned independent economic advice to advise on what the economic impact would be and the distributional analysis. That advice is available and has been published for Members. It is at appendix 11, which is part of the Budget, and that advice is very clear and very detailed in terms of what is likely to be the impact of the introduction of a retail tax. What it does in particular point out, and it is a point, to be fair, Senator Ozouf mentioned, and that is that margins in the retail sector, particular food, are quite small and, of course, Members would expect the economic advice picked up on that particular point. They say that in fact the wholesale and retail sector, 6 per cent to 7 per cent of total turnover is in that sector. Even if the full 20 per cent of income tax was passed on in terms of prices it would only add around 1 per cent or 2 per cent to the cost of goods sold due to the small margins that are in that particular marketplace. So the economic advice is clear, if the full 20 per cent is passed on then only 1 per cent or 2 per cent of that is likely to be seen in retail prices, so food prices in that particular area. That is without - and the economic advice goes on to talk about the competitive environment, and we have a competitive market and that was another area that the Senator was concerned about - mutuals. He was saying it was not a level playing field and he talked a lot about the importance of competition. I know he feels and has been a great champion for competition in the Island and should be congratulated for all the hard work he did in that area during his time. It has made a significant difference I believe. But the fact of the matter is, we have competition, we have a Co-op which is the largest supplier of groceries to Islanders in Jersey and they are not taxed. But I should point out to Members the Co-op were not taxed pre-Zero/Ten either. So there was an unlevel playing field previously if we are talking about whether playing fields are level or not. So pre-Zero/Ten, 20 per cent tax to other retailers but the mutual Co-op did not pay tax on its food and prices were therefore kept competitive. With the proposal with regard to retail tax, it is involving 20 retailers. The largest retailers turning over £500,000 in profit, delivering £500,000 in profit more to the point, and the full 20 per cent does not kick in until a profit of £750,000 has been reached. Any business in Jersey in the retail sector that is receiving a profit of less than £500,000 will pay no tax and that in itself creates additional competition in the marketplace. That is a really important point that it is a competitive market and will remain a competitive market even with the introduction of a retail tax at 20 per cent. So it is not a case that there has been no work done. There has been economic and distributional analysis undertaken. The other point that was raised, Deputy Norton and others said: "Well, there has been no consultation." Of course there has been a lot of consultation and I am going to talk about it now because the Deputy is looking confused and is frowning. First and foremost, the process started over a year ago when this was announced at the Budget last year that the work was going to be undertaken for the introduction of a retail tax and the reference point was Guernsey because they already had it and Isle of Man because they also already had it, albeit at a different rate. So Treasury started the process of consulting, invitations were issued to retailers, I think it was around about 30 of the largest

retailers, and there were 2 sessions of engagement offered and through that process I think around about 10 of those retailers engaged with Treasury. So the attempt was made to engage with the industry through those meetings to ensure that they were fully brought up to speed with what the proposals were going to be. That was the right approach to take. Since then, of course, there have been a number of occasions when this matter has gone to the Council of Ministers and has been discussed and, of course, Ministers have an opportunity through that process, or Assistant Ministers, looking in the direction of Deputy Norton, to raise any issues they might like. I will make just one other point. As a result of the decision taken yesterday by the Assembly with regard to rates and the States paying rates, the second amendment, of course, largely resulted in, through the Island-wide rate, a reduction in the rates to businesses of 16 per cent.

[15:00]

So there is, if I can put it this way, light at the end of the tunnel for those who are particularly concerned because, of course, businesses will see their rates bill fall by 16 per cent as a result of the decision taken. There have a number of other comments that I would like to cover. Deputy Mézac ... Mézac. [Laughter] It is funny, I went back to Treasury after the Deputy had made his comments and I said: "Do I really say that?" and there was: "Yes." I said: "Tomorrow, I am going to make a special effort to get it right" and I have gone and got it wrong. I am going to start again on my comments for Deputy Mézac and I hope I can keep that up as we continue. Just as an aside, it was the Constable of St. Martin who asked the question about Deputy Mézac. I am going to practise a lot now. [Laughter] To get myself over this little hump, maybe I will refer to him as the chairman of the Reform Party. That might help.

2.3.7 Senator A.J.H. Maclean:

I will deal with, hopefully, Deputy Martin's question first with regard to the phrase, income, profit and gain from a taxation point of view. Investment income is included in that. It is not just trading income; it is investment income. For example, if you take a company like the Co-op they have other investments included as part of their trading business and that would be taxable and that is why that is phrased in that way.

[15:45]

Okay. With regard to this particular Article, Article 7, we have had this debate, as has already been pointed out, already and I think all the arguments have, hopefully, been rehearsed. As I have also pointed out, this is as a result of a request from this Assembly from last year's Budget to bring this forward. It is bringing Jersey into line with other competing jurisdictions with regard to a retail tax, broadening our tax base in that regard. I gave, at the request of Senator Ozouf, Members the opportunity to debate this issue the other day when he had an amendment and I withdrew my amendment to the amendment to allow Members the opportunity to debate moving from 20 per cent to 10 per cent and we had a long debate and all the arguments were put forward at that particular debate and a vote was had. So I feel that that basis alone gave Members the opportunity to move from 20 per cent to 10 per cent. We are hearing from Senator Ozouf that there is lots of evidence elsewhere of reasons why food prices are going to go up if we introduce a 20 per cent tax rate. I have not seen the evidence. I do not know where the evidence is. What I do know is that from our perspective, from a Treasury perspective, we have undertaken distributional impact assessments, economic analysis. In appendix 11, attached to the Budget, there is an extensive report into the economic impact of taxes of this nature. What that report says, and I have already said this several times, is that due to the nature

of the market it is likely that any increase, if there is any increase, will be no more than one per cent or 2 per cent. That is the professional advice. I have to take and make decisions based on professional independent advice and that is quite simply what it says. The economic advice is very clear and Members have it, if they wish to look through it. I do not know quite what else I can add to this particular point or this particular area. We have had tax before on retailers in Jersey before Zero/Ten came into place. Senator Ozouf talks a lot about level playing fields. Well, if you like there was not a level playing field pre-Zero/Ten because of course the mutuals did not pay tax then and they do not pay tax under this arrangement either which creates a competitive environment. We have all the businesses who do not make a profit of £500,000, who are in the same space, who are also not taxed. So consequently they would have, one might argue, a competitive advantage and that is probably one of the reasons why there has not been examples elsewhere of prices rising significantly with taxes of this nature. I have the evidence. We have undertaken the research. We have undertaken the consultation with businesses within the retail sector. There are 20 businesses in total which are captured by this particular measure. Of those, 15 are non-locally owned businesses. This is an issue for Islanders and has been an issue for Islanders for many years, non-locally owned businesses where profits are going outside of Jersey. This measure deals with that particular matter. I maintain Article 7 and I ask Members to support Article 7 as indeed they did when we had the earlier debate where there was an option, at that stage, to reduce this tax to 10 per cent and that was rejected. I therefore ask Members to maintain the position.

Deputy A.D. Lewis:

Yes, please. A point of clarification from the Minister really. He said that he has consulted widely with the industry and yesterday we made a decision on this to stick with the 20 per cent, but since then, in the last 24 hours, we have received significant communication from the industry that says something quite different. Can he confirm absolutely he has consulted with the industry and they fully accept this proposal that he is making under this Article because in the last 24 hours we have received quite different contrary information to that which suggested it is not being accepted by the industry as fair, reasonable or even saying they are being consulted with? So can he please clarify that that is the case? He has actually consulted and that they have accepted this. I understand that you have spoken to the Minister. Can you confirm that and why have we had correspondence since that says different?

The Deputy Bailiff:

That is a proper point of clarification, Minister. You can ...

Senator A.J.H. Maclean:ss

Yes. No, that is fine. I think I made the point that Treasury has consulted and that invitations went out to 30 or so large businesses that would have been potentially caught by this measure. There were 2 sessions arranged around that. A total of 10 of those businesses decided to engage and come to those sessions and were given the details around this particular measure. With regard to more recent points that have been raised by the industry I think the Deputy said: "Can I confirm it is fair?" I think he said, or the industry think it is fair. I do not think anybody is going to think the introduction of a tax is fair. The consultation is understanding the views from industry which is why that consultation was undertaken and why officials from the Treasury met with those particular businesses. As I said, 10 of the 20 who were invited chose to come to those sessions. On top of that there were discussions, as Members would expect, with the Chamber of Commerce who are also representative of the broader sector.

Deputy A.D. Lewis:

That does not quite answer my question. Why is it then the Retail Association today and the Chamber of Commerce have both said the contrary and they were on the media last night, on broadcast media, saying they would prefer 10 per cent?

The Deputy Bailiff:

Deputy, you really must not make ... we must not have a toing and froing and you must not make a separate speech. You were able to ask the Minister to clarify a point in his speech or indeed clarify a point in your own speech that you may have made earlier but at this point all you can do is ask the Minister to clarify his speech. You have asked him about consultation. He has told you what the position of consultation ...

Deputy A.D. Lewis:

Well, can he clarify that he has heard from the Retail Association before yesterday?

Senator A.J.H. Maclean:

I cannot recall. I think there was information from the Retail Association. I cannot recall off the top of my head. I have not got all those details to hand but what I can tell you is what I have already told you, there have been invitations to all those businesses likely to be affected to engage with Treasury officials, 10 of the 30, over 2 sessions, came to engage in that way. I would like to finish if I could. There was a point Deputy Wickenden had asked me previously, and he has just raised it again, so I just wanted to deal with that. It is loosely related to this particular point on the basis that he was asking about economic analysis and the introduction of taxes and the point I have made. I think he was very kindly quoting on some points I had made some years ago about the need to make certain that taxes were the last resort. I do believe that is the right thing to do and that is why, through the Medium Term Financial Plan, as an example, we put at the very forefront of that plan the need to deliver savings and efficiencies and introduce a reform programme; all of which, up front, was delivering savings before we got to the point of needing to introduce or look at some other measures to balance budgets at the end of the period. There is, by the way, as far as this Budget is concerned ... I have talked about the economic analysis on this particular retail tax. There is a lot of evidence to support it, economic advice, but there is also 20 pages or so of analysis attached to the Budget Statement and that was available for the Deputy to consider. I maintain Article 7.

The Jersey Chamber of Commerce

Chamber House, 25 Pier Road, St Helier
Jersey, Channel Islands, JE2 4XW

Tel: 01534 724536

E-mail: admin@jerseychamber.com

Website: www.jerseychamber.com



Monday 15th January 2018

TO: Chief Officer of Treasury & Resources Department
CC: States Members
CC: Local Press

RETAIL TAX

Dear Richard Bell,

We write to you as the Chief Officer of Treasury and Resources as the Jersey Chamber of Commerce is deeply concerned following the decision to implement the Retail Tax at a 20% level taken by the States in November 2017. Following that decision, much discussion has ensued within Chamber with our members, primarily around the information used in the making of that decision and the nature of the consultation undertaken as described by the Treasury Minister during the States debate on the matter.

Our concerns prompted the Chamber to submit a Freedom of Information (FOI) request regarding the information used during this debate. *(The reply to this FOI is attached for your reference).*

You will recall that Chamber lobbied States Members about the unintended consequences the 20% rate would generate and importantly, the lack of consultation that was carried out with the retail sector. Unfortunately, those concerns seem to have been ignored. As was the sector's acknowledgement that the tax was appropriate but at a rate of 10%, in line with the finance sector.

During the debate, the following consultation statements were made by the Treasury Minister, these are direct quotes taken from Hansard. *(Attached to this email are broader extracts taken from Hansard).*

30th November 17

1.2.20 Senator A.J.H. Maclean:

*We made it clear by amending her proposition that we needed to look, to assess whether it was going to be safe to introduce a measure of that nature with regard to our corporate tax system. **That work has been undertaken in the intervening 12-month period.***

*..... Of course there has been a lot of consultation and I am going to talk about it now because the Deputy is looking confused and is frowning. **First and foremost, the process started over a year ago.....***

2.3.7 Senator A.J.H. Maclean:

.....*We have undertaken the research. We have undertaken the consultation with businesses within the retail sector.....*

.....*The consultation is understanding the views from industry which is why that consultation was undertaken and why officials from the Treasury met with those particular businesses. As I said, 10 of the 20 who were invited chose to come to those sessions. On top of that there were discussions, as Members would expect, with the Chamber of Commerce who are also representative of the broader sector.*

Of the twenty companies referenced by the Treasury Minister, the Jersey Chamber of Commerce and the Retail Association have had direct communication with nine. Our discussions have made it clear that none of these companies were contacted twelve months prior to the budget debate to participate in any form of consultation. The first communication they received regarding the Retail Tax was an email on the 15th September (referenced in the FOI), just ten weeks ahead of the budget debate.

The email on the 15th September invited those twenty businesses to a presentation on the 20th or 21st September. Retail Members of Chamber and our President attended these briefing presentations, where they were told of the intended implementation of the Retail Tax, its rate and sliding scale. They were told the information was embargoed, as States Members had not yet been briefed and that this information was to be the content that would be in the 2018 Jersey Budget Proposal.

Chamber do not believe that this amounts to a consultation. We would ask the States to look to recent examples such as the recent GDPR legislation changes to see the time and effort that goes in to what Chamber would consider adequate consultation with businesses who are or who are likely to be in the near future, affected by such a fundamental change.

On the 22nd September, the President and Vice-President of Chamber attended a quarterly update meeting with the Treasury Minister and, at Chambers request, discussed the Retail Tax.

The official budget briefing was held at St Paul's Centre on the 2nd October and then debated in the States, week commencing 27th November 2017.

We are unsure how our States Members could have made the correct decision on this important change to our tax regime when presented with the information made available to them and the unfounded impression that a consultation had taken place with the retail sector when in fact it had not.

Our retail sector has yet to see the decimation that many of the UK high streets have seen in the last decade, but it is clear that factors that influence decisions to be part of the retail sector are marginal and it takes very small changes to have a significant and lasting effect on the high street and beyond. The implementation of a tax at the agreed level will affect all of our large retailers, their decisions on training, expansion, recruitment and whether to be trading in Jersey at all. To bring in a tax that is higher than the UK rate of corporate tax for a small number of retailers does not feel low, broad or fair as indicated by our Chief Minister as he discussed our budget in the recent past.

Chamber agrees that everyone on our island should pay their way, but this must be taken into account in the round, including income received through employee taxation and the GST that is recovered on the island's behalf. We feel, as previously communicated, that a corporate tax rate of 10% would be far more appropriate and is in the best interests of the island to help protect the retail sector and GST receipts.

In light of this information, if our States Members feel that they have made a decision without the full facts, we would ask that the States look to reconsider this decision. Chamber would be happy to work closely with the Treasury & Resources department to bring representatives of our retail sector to

discuss the impact that this tax will have on their businesses to allow the correct consultation to take place and ultimately an informed debate for our States Members.

Yours Sincerely,

Executive Council
Jersey Chamber of Commerce.

NEWS

Uncertainty could stop companies moving to the Island, says retailer 'Firms losing faith in States over unpredictable taxation'

By Ian Heath

iheath@jerseyeveningpost.com

BUSINESSES are losing confidence in Jersey's government due to its unpredictable taxation policies, which could scare investors away from the Island, a leading retailer has claimed.

During last November's Budget debate the States voted in favour of introducing a new 20 per cent tax on large retailers and to increase the rates of Vehicles Emission Duty, a one-off tax on cars when they are imported to the Island depending on their level of CO₂ emissions.

Both measures have provoked a backlash from business, with large supermarkets claiming that the retail tax could force food prices up and eat into funds which are needed for investment in infrastructure and staff training.

Meanwhile, car dealers have complained that the changes to VED, which came into effect at the start of the year, have resulted in charges increasing in some cases by as much as 177 per cent.

Retailer Gerald Voisin, who owns Jersey's second largest department store Voisins, said he was concerned at the manner in which taxes which have a significant impact on businesses are being introduced.



■ Retailer Gerald Voisin: 'It has created a loss of confidence because we don't know what to expect next'

'The retail tax was first suggested at the end of 2016 and there was no consultation. The Vehicles Emissions Duty was suggested in an amendment two weeks before the Budget. There was no consultation - it was introduced very quickly. It is very, very poor,' he said.

'It was the behaviour you would expect from a tinpot dictatorship rather than a legislature which is responsible for an inter-

national financial services centre.'

Mr Voisin said that the introduction of such measures at short notice was unsettling for businesses.

'It has created a loss of confidence among businesses because we don't know what to expect next,' he said.

'You need to have an idea of what is going to happen next because businesses need to plan. Sometimes it ends up being bet-

ter just to do nothing if you don't know what is going to happen.

'At the moment, people are thinking which industry is going to move to the

20 per cent rate next? Hospitality? So, maybe the big hotels. Or it could be construction?'

'The only policy appears to be to keep the number of businesses low so that the zero-ten tax regime can remain in place.'

'All this uncertainty is going to prevent businesses from wanting to move here.'

He added that Jersey was also becoming less attractive for firms as other jurisdictions lower their corporation tax regimes, such as in the UK, where the rate is being reduced to 17.5 per cent.

David Seymour, managing director of Seymour Hotels, said he believed the Island's government should 'get itself in order' before asking businesses for more money.


'They should make what changes they need to reduce costs for themselves and if there's still a shortfall after that, then they can sit down and talk to businesses,' he said.

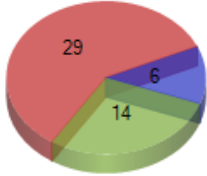
APPENDIX 6

Assembly's Vote on paragraph (v) of P.90/2017 Amd.(4)

Vote for Draft Budget Statement 2018 (P.90/2017): fourth amendment (P.90/2017 Amd.(4)) Paragraph (v)

Vote date: 28/11/2017
Reference: P.90/2017(Amd)(4)(Re-issue) **Propositor**

 **Draft Budget Statement 2018 (P.90/2017): fourth amendment (504 kb)**



Vote	Count
Pour	29
Contre	14
Absent	6

Sort by title
Sort by vote
Sort by surname

Senator	<u>Philip Francis Cyril Ozouf</u>	Pour
Connétable	<u>Alan Simon Crowcroft</u>	Pour
Connétable	<u>Leonard Norman</u>	Pour
Connétable	<u>Michael John Paddock</u>	Pour
Connétable	<u>Stephen William Pallett</u>	Pour
Connétable	<u>Christopher Hugh Taylor</u>	Pour
Connétable	<u>Philip Bond Le Sueur</u>	Pour
Deputy	<u>Judith Ann Martin</u>	Pour
Deputy	<u>Jacqueline Ann Hilton</u>	Pour
Deputy	<u>Kevin Charles Lewis</u>	Pour
Deputy	<u>Andrew David Lewis</u>	Pour
Deputy	<u>Scott Michael Wickenden</u>	Pour
Deputy	<u>Murray Julian Norton</u>	Pour
Deputy	<u>Graham John Truscott</u>	Pour
Senator	<u>Paul Francis Routier M.B.E.</u>	Contre
Senator	<u>Alan John Henry Maclean</u>	Contre
Senator	<u>Ian Joseph Gorst</u>	Contre
Senator	<u>Sir Philip Martin Bailhache</u>	Contre
Senator	<u>Andrew Kenneth Francis Green M.B.E.</u>	Contre
Senator	<u>Sarah Craig Ferguson</u>	Contre
Connétable	<u>John Martin Refault</u>	Contre
Connétable	<u>Deidre Wendy Mezbourian</u>	Contre
Connétable	<u>Michel Philip Sydney Le Troquer</u>	Contre

Connétable	<u>John Edward Le Maistre</u>	Contre
Deputy	<u>Geoffrey Peter Southern</u>	Contre
Deputy	<u>Carolyn Fiona Labey</u>	Contre
Deputy	<u>Anne Enid Pryke</u>	Contre
Deputy	<u>Montfort Tadier</u>	Contre
Deputy	<u>Edward James Noel</u>	Contre
Deputy	<u>Tracey Anne Vallois</u>	Contre
Deputy	<u>Michael Roderick Higgins</u>	Contre
Deputy	<u>Jeremy Martin Maçon</u>	Contre
Deputy	<u>Susan Jane Pinel</u>	Contre
Deputy	<u>Stephen George Luce</u>	Contre
Deputy	<u>Roderick Gordon Bryans</u>	Contre
Deputy	<u>Kristina Louise Moore</u>	Contre
Deputy	<u>Samuel Yves Mézec</u>	Contre
Deputy	<u>Louise Mary Catherine Doublet</u>	Contre
Deputy	<u>Russell Labey</u>	Contre
Deputy	<u>Simon Muir Brée</u>	Contre
Deputy	<u>Terence Alexander McDonald</u>	Contre
Deputy	<u>Robert David Johnson</u>	Contre
Deputy	<u>Peter Derek McLinton</u>	Contre
Senator	<u>Lyndon John Farnham</u>	Not present for vote
Connétable	<u>Juliette Gallichan</u>	Not present for vote
Deputy	<u>John Alexander Nicholas Le Fondré</u>	Ill
Deputy	<u>Richard John Rondel</u>	Ill
Connétable	<u>Sadie Anthea Le Sueur-Rennard</u>	En défaut
Deputy	<u>Richard John Renouf</u>	En défaut

Morrison's' price cuts

Morrison's 5% price cuts 'could have been more'



'Reckless' new tax blamed by Island retailer

By Ian Heath

iheath@jerseyeveningpost.com

CONSUMERS will not reap the full rewards of Morrison's supplying the local market because of the 'reckless' new re-

tail tax, according to the Island's biggest retailer.

Announced at the weekend, a deal has been struck by SandpiperCI with the supermarket giant to sell its goods across all 16 of the Food Hall mini-supermarkets,

which will all be rebranded as Morrison's Daily stores.

The move, which will create around 100 jobs, will see prices fall by an average five per cent but could have been more, accord-

(Cont on page 2)

'Reckless' tax

(Cont from page 1)

ing to SandpiperCI chief executive Tony O'Neill.

The announcement came following the introduction of a new 'retail' tax in the Island, which will see retail businesses with annual profits greater than £500,000 taxed on a sliding scale, with those earning over £750,000 taxed at a top rate of 20 per cent.

The new tax was approved in November in the 2018 budget.

Mr O'Neill said that the deal, which will see Waitrose and Heritage goods replaced with Morrison's produce alongside local goods, should help secure sizeable price cuts, but even better deals could have been achieved had it not been for the new tax.

'At this stage we are reasonably confident that we will see prices, on average, reducing by five per cent in our stores,' he said.

'But if it wasn't for this retail tax it would be more. We are doing as much as we can to mitigate the impact of the tax but we believe it was reckless to introduce it at 20 per cent. We believed it was right to introduce it at ten per cent. We have already had to cancel two capital projects because of this.'

He added that SandpiperCI was planning to contact States Members to outline their concerns about the impact of the retail tax.

Mr O'Neill was unable to provide an estimate of how much greater the planned price cuts would have been had it not been for the new retail tax.

But he said that working in partnership with one of the UK's largest supermarkets would allow his firm's stores to become more price-competitive.

'It's all a question of size these days. We have Waitrose and Iceland in the Island, and Alliance working with Tesco now, which has helped their offering,' he said.

'What we are going to have is another top-four UK supermarket coming here, which is bound to bring better value.'

SandpiperCI hopes that the first converted store will open by the second week of May and the firm intends to focus on rolling out the brand in Jersey before moving on to Guernsey.

It hopes to convert all of its stores within 12 months of the first opening and plans to spend a 'seven figure' sum on the project.

There are currently 16 Food Halls in Jersey and six in Guernsey. Mr O'Neill could not say at this time which store would be converted first.

It is hoped that the project will create an additional 100 jobs in the Island and SandpiperCI intends to use local contractors to carry out the 'bulk' of the conversion work.

James Badger, Morrison's wholesale director, said: 'We are pleased to be announcing a partnership with such a strong franchise partner.'

'SandpiperCI opens the opportunity to bring Morrison's quality and value to customers in the Channel Islands.'

Islanders' concerns over the cost of living

