Treasury and Exchequer

Government of JERSEY

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Deputy Jonathan Renouf
Chair - OECD Pillar 2 Implementation Sub-Panel

BY EMAIL

2nd October 2024

Dear Chair,

RE: OECD Pillar 2 Review – Information Request

Further to your letter dated 25 September 2024 requesting written information relating to a number of questions, please find below our responses:

Review of the Propositions and Implementation Choices

1. **What were the key factors that influenced the drafting process of P.53/2024 and P.54/2024, and can you provide some insight into the level of stakeholder engagement - over what period, type of business, with what jurisdictions?**

The design of the Pillar 2 implementation policy for Jersey and the drafting of the accompanying P.53/2024 and P.54/2024, was developed very carefully over the past four years and was based on a number of key criteria:

- Jersey's long-term commitment to alignment with international tax initiatives. In the case of the Pillar 2 15% GloBE (Global Anti-Base Erosion) minimum tax regime, this means aligning with the OECD Common Approach as set out in the GloBE Model Rules and Commentary.

- Selecting an appropriate policy design for Jersey's economic position as a competitive International Finance Centre with a global book of business.

- Supporting our long-term strategy for growing our Financial Services sector and securing new business flows from growth markets like the US.

- Alignment with Jersey's Tax Policy Principles agreed by the States Assembly and reproduced at Appendix 1.

In pursuit of all these objectives, the Government has engaged with a wide range of on-Island and off-Island stakeholders over the past four years of detailed policy development. This engagement is set out below.

Public engagement

- A dedicated webpage has been established in the Revenue Jersey area of the Government website, which provides details of all Government communications and consultation on both Pillar 1 and Pillar 2.

- In April 2022, the Government published a "Pillars 1 & 2 Policy Reflections Paper" which explained the OECD two-pillar project and sought feedback on a number of key policy questions. The comments received from stakeholders informed the policy design choices that followed.

- In May 2023, the Government of Jersey, joined the other Crown Dependencies to publish a Joint Statement on Pillar 2.

- In May 2024, the Governments of the three Crown Dependencies issued a further Joint Update and each Government then issued its own Implementation Update.

Engagement with impacted businesses and their advisers

- A core group of senior Jersey industry representatives worked closely and confidentially with Government officials over the four years, reviewing the details of the Pillar 2 regime as it was developed at the OECD.

- Numerous 1-1 taxpayer confidential meetings were held between impacted groups, their advisers and Revenue Jersey to discuss their specific facts and circumstances. These meetings often included representatives from the taxpayers in Jersey but also from their wider Group Tax functions. For some taxpayers, multiple meetings were held over the past four years.

- Confidential Ministerial meetings were also held with industry and advisory groups during 2024.

- Key impacted groups and their advisers were consulted on draft legislation in May-June 2024 and this detailed feedback was used to refine P.53/2024 and P.54/2024 before lodging in August 2024.

Inter-governmental and OECD engagement

- A number of Ministerial visits have taken place with US, UK, EU Member States and other like-minded global jurisdictions, to discuss the international tax agenda, including Pillar 2.

- Officials and Ministers have worked hand in hand with the other Crown Dependencies since 2022 on the development of policy approaches and joint communications on timing (as noted above).

- Revenue Jersey has attended hundreds of Pillar 2 on-line and in-person OECD Working Party meetings and meetings of the OECD Steering Group for the Inclusive Framework on BEPS (Base Erosion and Profit Shifting). Officials have kept the OECD Secretariat informed of progress on Jersey's implementation pathway at key stages of the policy development.

All these strands of engagement have informed our proposed implementation pathway for Jersey within the Pillar 2 Common Approach.

2. **The Budget 2025-2028 suggests that the implementation of the OECD Pillar Two initiative could generate upwards of £50 million annually for Jersey. Could you provide more detail on how this revenue projection was calculated and what assumptions underpin this estimate?**

Forecasting the tax revenue effect of any tax change can be challenging as it can lead to behavioural change by taxpayers that is difficult to predict with any certainty.

In the case of the global implementation of Pillar 2, forecasting is even more difficult as the responses of affected taxpayers will be affected by the implementation of Pillar 2 globally, and not just the way it is implemented in Jersey. As the Pillar 2 regime is still in its inception phase and the pace and manner of its global roll out can vary in accordance with the OECD Common Approach, multinational groups affected by Pillar 2 may still be determining their behavioural response (by which we mean any changes in the scale and structure of their business and any review of the jurisdictions in which they operate). It is likely that the behavioural effects will take a few years to fully materialise.

Therefore, the approach taken to the forecasting of Pillar 2 revenues has been to forecast the tax revenue that the Government is reasonably confident will be received on a recurring basis. The degree of confidence in the level of recurrence of these receipts is important because the purpose of tax forecasting is to produce an estimate of the revenues available for Government for current spend, capital and to invest in Reserves (to improve the resilience of Jersey's economy).

Taking these considerations into account, the Government has produced a Base Case forecast for Pillar 2.

It is acknowledged that tax revenues may be considerably higher than the Base Case. However, the magnitude of these additional receipts is highly uncertain. There is further uncertainty as to whether any upside tax revenues may continue into the medium term, for example, as taxpayer behaviours may change in response to the change in tax rate. Because of these considerable uncertainties, the decision was taken not to try to estimate the upside tax revenues in this Budget.

The Pillar 2 tax forecast – as typical with all tax revenue forecasts – will be kept under review.

This approach by Government to the Pillar 2 forecast has been endorsed by the Fiscal Policy Panel, in its recently published Annual Report (page 33):

> *"In May 2024, the Government announced it would adopt the OECD Pillar Two tax regime from 2025. This will introduce a 15% minimum tax framework to multi-national enterprises with annual global revenues of at least €750 million and is expected to generate additional corporate income tax revenue for Jersey. This global tax change can be expected to create some uncertainty and could negatively affect the competitiveness of large businesses in Jersey and some behavioural change can be expected.*
>
> *Given the uncertainty about how much additional tax revenue will be raised by Pillar Two in the short and medium term, the Panel supports the decision of the Government in not including Pillar Two tax revenues in its main forecast and in not using these to fund*

expenditure. It also supports the Budget proposal that any upside additional revenues from Pillar Two, above the base forecast, should not be spent on recurring items but should be used for strengthening reserves and investing for the medium-term. The Panel recommends that this proposal is made into a commitment."

3. Considering that the implementation date for the new tax measures is set for January 2025, and acknowledging that the revenue will not be received instantly, could you explain how this timeline impacts the Government's fiscal planning and how it will be communicated to the public?

The timeline for beginning to receive actual tax data on revenue receipts from Pillar 2 will be the end of May 2026 through to end November 2027.

The Income Forecasting Group will review the approach to the forecasting of Pillar 2 again in 2025. However, it is unlikely that the current Base Case approach will change significantly until there is clearer sight of actual Pillar 2 tax data in 2026/27.

This information will be communicated through the Budget process in the usual way.

Assessing Jersey's Proposed Implementation

4. What assessments have been conducted regarding the potential impact of Pillar Two on local businesses, especially multinational enterprises operating in Jersey? Are there any specific sectors that are expected to be more significantly affected?

Confidential OECD Country-by-Country Reporting (CbCR) data was available to Revenue Jersey containing information about the population of in-scope multinational groups that are subject to Pillar 2 – those with global turnover above €750m. Based on this CbCR data, Revenue Jersey's tax return data, other economic information and good engagement with impacted groups, it was possible to carry out some analysis of the degree to which many impacted groups are embedded in the Jersey economy, their tax contribution and the flight risk of certain taxpayers.

Pillar 2 does not, of itself, impact specific sectors of the economy. However, given that the financial services sector is the largest contributing sector to the Jersey economy, it is not surprising that the largest cluster of in-scope Pillar 2 groups is found in this sector. It is for this reason that work outlined below to address the competitiveness of Jersey's economy post Pillar 2 is focused primarily on this sector.

a. Has the Government identified any need to support businesses during the transition, and, if so, how might that support be delivered?

Impacted businesses are highly sophisticated taxpayers with professional advisors and in-house personnel. Nevertheless, they will require support from Revenue Jersey to deal with the implementation of Pillar 2. This will be a completely new tax for in-scope groups and these support measures are in the process of being designed and rolled out over the coming months – to establish a new Revenue Jersey customer service unit which will provide technical and administrative assistance to taxpayers, to design and set up a new dedicated Revenue Jersey customer IT portal for dealing with Pillar 2 compliance, to publish Frequently Asked Questions and Revenue Jersey Guidance which will address practical implementation issues.

i) Revenue Jersey customer service for Pillar 2 groups

- Revenue Jersey intends to ensure that excellent customer service is a differentiating factor in Jersey's implementation of Pillar 2.

- A new customer service unit is being established in Revenue Jersey which will be dedicated to Pillar 2 taxpayers – to support them through implementation and on an on-going basis.
- The unit will be staffed by specialist officers with Pillar 2 tax technical knowledge, Pillar 2 accounting knowledge and operational expertise. Some of these staff are already in place and more will be recruited over 2025 and 2026.
- Revenue Jersey is already providing assistance to taxpayers who have approached them for technical support.

ii) The new IT Portal

- Revenue Jersey has begun development work on a new IT Portal that will provide the simplest possible interface for Pillar 2 taxpayers to deal with Jersey's Multinational Corporate Income Tax (MCIT) and the Income Inclusion Rule (where applicable).

- Over the next two-three months, all Pillar 2 business processes will be identified and mapped systematically. This information can then clearly inform the Invitation to Tender process for the procurement and design of the new IT solution that will underpin the portal.

iii) Revenue Jersey Guidance and FAQs

- Revenue Jersey is working with stakeholders to publish guidance that will accompany P.53/2024 and P.54/2024. This guidance will be a living document that evolves over time, as the OECD guidance evolves and as implementation takes place globally.

- In the early stages of developing this guidance, Revenue Jersey will focus on providing as much clarity as possible on the questions that are most frequently being asked by businesses and advisers. These FAQs will be published on the coming weeks on a dedicated webpage that Revenue Jersey is developing.

The Government's focus on the competitiveness of Jersey's financial services sector is also an important aspect of work being carried out to support the industry as in-scope groups begin to implement Pillar 2. A new International Competitiveness Political Working Group has been established to consider the matter with Ministerial representation from the Chief Minister, Minister for External Relations and Minister for Treasury and Resources, as well as representation from the JFSC, JFL, Digital Jersey and officers across Government departments.

5. **The Subject to Tax Rule (STTR) is an important component of the OECD Pillar Two framework aimed at ensuring certain cross-border payments to developing countries are taxed at a minimum rate of 9%. Could you explain Jersey's approach to implementing the STTR, particularly why the Government intends to adopt it through bilateral protocols rather than the OECD's Multilateral Legal Instrument (MLI)?**

a. What are the reasons for choosing bilateral agreements over the multilateral approach, and how does this decision impact Jersey's relationships with developing countries and its commitments under the OECD Inclusive Framework?

Jersey supports the STTR, having played an active role in its negotiation. We are committed to implementing it if requested by a relevant Double Taxation Agreement (DTA) partner jurisdiction, in line with our obligations as an associate member of the OECD Inclusive Framework. However, as non-state jurisdictions are not permitted to sign the STTR Multi-Lateral Instrument (MLI) themselves, the MLI could only apply to Jersey if the UK first became a signatory and then extended the scope to include the island. In the absence of this, Jersey can only implement the STTR on a bilateral basis. This is in line with the STTR, which provides that a jurisdiction may implement its commitment under the STTR bilaterally, under the MLI, or through a mixture of both.

That said, the impact of this on Jersey's DTA partners is likely to be relatively minor, given only one of Jersey's double tax agreements is potentially within the scope of the STTR. The approach of that developing country treaty partner to the STTR is still unclear; it has not signed the MLI. Jersey's publicly stated position remains that, if that treaty partner expresses an interest in implementing the STTR in its agreements in any way, we will prioritise putting the necessary bilateral protocol in place as quickly as possible

Alignment with Government Objectives and Policy Goals

6. **Throughout the development of this legislation, how has stakeholder feedback been solicited and incorporated? What were the main concerns raised by stakeholders, and how have these been addressed in the final proposals?**

a. **Are there plans for ongoing engagement with stakeholders as the legislation is implemented and possibly adjusted in the future?**

A detailed response on the work undertaken by Government to engage stakeholders throughout the Pillar 2 process is set out above, in response to Question 1.

As with any new international initiative, Pillar 2 is likely to evolve over the coming years and the Government will be continuing its engagement work throughout this time. There are likely to be modifications and amendments required to the Pillar 2 legislation as it evolves; in fact, Ministers advised the sub-Panel of some early clarificatory amendments that will be lodged in the coming days, following ongoing OECD clarifications and stakeholder feedback since P.53/2024 and P.54/2024 were lodged.

This is a normal part of implementing such major change and is being experienced by all jurisdictions involved. The Legislation and guidance will be kept under continuous review.

Assessing Feasibility and Practical Implementation

7. **The Proposed Budget 2025-28 allocates approximately £4 million for developing and implementing a new Revenue Jersey IT system. Is this funding sufficient to cover all aspects of implementation, including staffing and training?**

a. **Are there plans to secure additional resources if needed, and how will the Government manage potential cost overruns?**

b. **What impact would this have on other projects and programmes for delivery in 2025 in respect of Revenue Jersey?**

The proposed allocation of £4 million should be sufficient to cover the costs of the work needed in 2025 to tender for a bespoke IT system to administer the Pillar 2 taxes and to build up a team within Revenue Jersey to handle the implementation work, including customer service (education etc) for the prospective taxpayers.

A Business Case will be presented to the Treasury Minister in time for the 2026 Budget (Government Plan) process which will seek the further funding needed fully to deliver all aspects of the administration of the Pillar 2 taxes. While business cases always endeavour accurately to forecast costs, any potential cost overrun would normally be managed through "change requests" as part of a change-control process within the project.

Revenue Jersey has 3 priority transformation projects to manage in 2025: Pillar 2; Independent Taxation; and completion of implementation of the Contributions Function Integration project (CFI). These are funded and cross-departmental commitment is in place to deliver them.

8. **What administrative systems and mechanisms are being established to manage compliance with the new tax measures?**

a. **How will Revenue Jersey ensure that taxpayers receive high standards of customer service during this transition?**

b. **What kind of support and guidance will be provided to affected businesses to help them understand and comply with the new requirements?**

The response to Question 4 above, sets out the range of ways in which Pillar 2 taxpayers will be supported by Revenue Jersey and the wider Government – from the specialist team of staff in Revenue Jersey providing taxpayer certainty and good turn-around times, to the new dedicated IT portal that is being developed and the range of guidance and FAQs being published.

One of the benefits of the new regime is the opportunity to tailor customer services to the needs of these particular taxpayer groups. Care and time is being invested in the development of this range of services. It will ensure an excellent customer experience for Pillar 2 taxpayers which we know, from their feedback, is an important element of Jersey's competitive offer.

Long-term Strategies and Impact

9. **What are the projected long-term economic impacts of implementing the OECD Pillar Two framework on Jersey's economy? Given the uncertainties in revenue forecasting, how does the Government plan to manage potential fluctuations in tax revenue?**

As noted in Question 2 above, it is difficult for all jurisdictions to predict the medium or long term implications of the global roll out of the OECD Pillar 2 regime. It is a completely new international framework for the in-scope groups that are involved. Whether an individual jurisdiction implements Pillar 2 itself or the groups operating in its jurisdiction are subject to top up taxes elsewhere, there are likely to be behavioural implications for Pillar 2 groups that are, as yet, unknown.

Jersey is very focused on ensuring that it implements Pillar 2 in a way that best supports the compliance and customer service needs of these groups and that the Island remains a global International Finance Centre of choice for them and other investors.

Fluctuations in revenue receipts will be managed in part by adopting a prudent strategy for their use – for example, in helping to build up reserves and not applying them to recurring revenue spending.

a. How has Government prioritised resources for the implementation of Pillar Two? Have any projects or initiatives been delayed or stopped as a result?

The Pillar 2 project is a top priority for delivery by Treasury, Revenue Jersey and Government more widely. Separate (additional) funding of over £4 million has been allocated to Revenue Jersey for the first phase of work (in 2025 and 2026) to deliver the Pillar 2 taxes. Resources are committed to this work across Government to ensure sufficient input from Digital Services and support with systems procurement.

This new funding ensures that the delivery of other key projects (in particular Independent Taxation and the Contributions Function Integration Project) are not affected by the work on Pillar 2.

b. What monitoring and evaluation mechanisms will be put in place to assess the impact over time and make necessary adjustments to policy?

Revenue Jersey has built a strong international tax policy team to design and monitor all new international tax initiatives that are introduced. This team will maintain a watching brief over developments on Pillar 2 through OECD and stakeholder engagement and through careful monitoring of global jurisdictional implementation.

Future adjustments to the regime are likely to be required internationally and this will be kept under continuous review.

Revenue receipts will be managed in the normal way through the work of the Income Forecasting Group.

Development of the Credit System and Future Work

10. As we look ahead to the full implementation of the OECD Pillar Two framework, could you explain what work is being done to develop the credit system that will be implemented?

A new International Competitiveness Political Working Group has been established to oversee work on international competitiveness, with a particular focus on Jersey's offer as an IFC. Ministerial representation is from the Chief Minister, Minister for External Relations and Minister for Treasury and Resources. There is also representation on the Board from the JFSC, JFL, Digital Jersey and officers across Government departments.

This wider competitiveness work will include the design of a new Qualified Refundable Tax Credit (QRTC) that is permissible under the Pillar 2 rules and that will be suitable for Jersey as an IFC. The design of a QRTC is important – it has to be effective in incentivising business growth and deepening business ties for the financial services sectors that we have in Jersey, both now and in the future.

11. **How does the development of the credit system align with international best practices, and what efforts are being made to learn from other jurisdictions implementing similar systems?**

As with all other aspects of Pillar 2 work, the Revenue Jersey international tax policy team is constantly monitoring international developments on QRTCs and discussing their suitability for Jersey with our stakeholders.

a. **Are there any areas where Jersey's approach may differ from OECD guidelines, and if so, what is the rationale behind these decisions?**

The OECD Common Approach guidance in this area is still developing and will be followed by Jersey.

12. **Could you provide an overview of the timeline for developing and implementing the credit system?**

The Government is clear that a QRTC is needed as part of a suite of measures to preserve Jersey's competitiveness offer. However, it is important that the QRTC is developed with the clear objective of achieving actual economic growth rather than launching something that may not be effective for Jersey or that may need significant change at a later date.

We intend to move at pace on this issue but also to move thoughtfully and with appropriate stakeholder engagement, to come up with a credit mechanism that will actually fit the types of international business in the Island. We will build on the innovative approach we have taken to the implementation of the Pillar 2 regime itself.

a. **What key milestones or phases are planned, and how will progress be monitored and reported?**

Work has already begun on the development of an appropriate QRTC for Jersey. This work will be overseen by the Competitiveness Working Group, with appropriate targets and milestones.

Yours sincerely

M E Millar

Deputy Elaine Millar
Minister for Treasury & Resources

Deputy Ian Gorst
Minister for External Relations

Appendix

Jersey's Tax Policy Principles

Fair and sustainable

- Taxation must be necessary, justifiable, and sustainable
- Taxes should be low, broad, simple and fair
- Everyone should make an appropriate contribution to the cost of providing services, while those on the lowest incomes should be protected

Support broader Government Policy

- Taxes must be internationally competitive
- Taxation should support economic, environmental, and social policy

Efficient and effective

- Taxes should be easy to implement, administer and comply with, at a reasonable cost