STATES OF JERSEY

EXPENDITURE PROPOSALS FOR 2012 AND 2013 AND DRAFT BUDGET STATEMENT 2011 (P.157/2010): THIRD AMENDMENT (P.157/2010 Amd.(3)) – SECOND AMENDMENT

Lodged au Greffe on 30th November 2010
by the Minister for Treasury and Resources

STATES GREFFE

EXPENDITURE PROPOSALS FOR 2012 AND 2013 AND DRAFT BUDGET STATEMENT 2011 (P.157/2010): THIRD AMENDMENT (P.157/2010 Amd.(3)) – SECOND AMENDMENT

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For the words "the estimate of total taxation revenue in 2011 shall be decreased by £4.8 million by introducing" substitute the words "the rate of Goods and Services Tax shall be increased to 6% from 1st June 2011 and not to 5% as proposed in the draft Budget Statement with the introduction of".

MINISTER FOR TREASURY AND RESOURCES

NOTE:

This amendment has been lodged by the Minister for Treasury and Resources less than 14 days before the start of the debate in accordance with the provisions of Article 20(3) of the Public Finances (Jersey) Law 2005. Paragraphs (2) and (3) of Article 20 are in the following terms –

> (2) A draft or proposition to which this Article applies is not capable of being amended during a debate in the States on the draft or proposition except in accordance with an amendment lodged at least 14 days before the start of the debate.
>
> (3) Paragraph (2) does not apply to an amendment moved by the Minister if the States agree that the amendment may be debated forthwith or at a time approved by the States.

In accordance with the provisions of paragraph (3) the Minister for Treasury and Resources will seek the agreement of the States to debate this amendment during the debate on the Expenditure Proposals for 2012 and 2013 and Draft Budget Statement 2011.

REPORT

Summary

The Treasury does not recommend food or other UK VAT-type zero-ratings for exemptions.

However, I do understand the position of a number of States Members, including some Ministers, on exemptions. Deputy Green's amendment would significantly worsen States' public finances.

As the Minister for Treasury and Resources is the only person who can lodge changes within 2 weeks of the Budget debate, the Council of Ministers has asked me to lodge this amendment, which is revenue-neutral, to Deputy Green's proposal. This would allow Members to vote in favour of zero-ratings without increasing the deficit.

Background

If approved, Deputy Green's amendment will have the following impact on the States' GST revenue receipts:

Impact of zero-rating food and domestic energy

	2011 7 months £m	**2012+ full year £m**
Foodstuffs	(3.7)	(6.3)
Domestic energy	(1.1)	(1.9)
Administration cost	(0.1)	(0.2)
Income support saving	0.4	0.6
	(4.6)	(7.8)

To generate the equivalent amount of revenue with the additional exclusions above, we would require a GST standard rate in the region of 5.7% or 5.8%.

However, this rate computation is based only on the revenue shortfall that is reasonably easy to quantify – the theoretical loss from the reduction in taxable household consumption. It does not take into account other factors that will have an impact on the revenue-generating potential of GST as follows –

- A loss of revenue resulting from a reduction in the current levels of voluntary compliance by individuals and businesses. The exclusions of food and domestic energy will complicate the system and inevitably result in errors and delays to making returns and payments.

- A loss of revenue from the consumption of foodstuffs and domestic energy which is not included in the household expenditure data used in the table above. For example, visitor expenditure.

We have estimated that these factors would result in a further loss of revenue in the region of £2 to £3 million and therefore a rate of 6% would be required to recover the overall total revenue shortfall.

It is also recognised internationally (by IMF and OECD), and based on practical experience, that "whole" tax rates should be used, where possible, to reduce the scope for further confusion, errors and delays, and ease the compliance/administration costs for businesses and the States.

Manpower implications

There are no extra manpower requirements to administer these amendments.

Financial implications

A 6% GST rate with additional exclusions would be expected to raise around £4.8 million more than a 5% GST rate with additional exclusions in 2011, offsetting the GST revenues foregone as a consequence of introducing zero-ratings for food and domestic energy.