



## Corporate Services Scrutiny Panel

Budget 2019

**Witness: The Minister for Treasury and Resources**

Wednesday, 31st October 2018

**Panel:**

Senator K.L. Moore (Chairman)

Deputy S.M. Ahier of St. Helier (Vice-Chairman)

Connétable K. Shenton-Stone of St. Martin

Connétable R. Vibert of St. Peter

Deputy J.H. Perchard of St. Saviour

**Witnesses:**

The Minister for Treasury and Resources

Assistant Minister for Treasury and Resources

Comptroller of Taxes

Deputy Comptroller of Taxes

Director for Financial Planning and Performance

[11:04]

**Senator K.L. Moore (Chairman):**

While you are all settling down, we would like to welcome you all to this Corporate Services Scrutiny Panel hearing focusing on the Budget for 2019. Welcome to members of the public who are here also, and if we could just remind people of the simple rules of engagement here. If electronic devices, including mobile phones, could be switched off please or switched to silent and we ask that members of the public do not interfere with the proceedings. As soon as the hearing is closed, if they could please leave quietly. The hearing will be filmed and streamed live today. The recording will be published afterwards. For the sake of the witnesses, may I confirm that you have read and understand the witness statement in front of you, Minister?

**The Minister for Treasury and Resources:**

Yes, thank you.

**Senator K.L. Moore:**

So we will kick off with introductions. I am Senator Kristina Moore. I am the chairman of the panel.

**Deputy S.M. Ahier of St. Helier (Vice-Chairman):**

Steve Ahier, vice-chairman.

**Connétable K. Shenton-Stone of St. Martin:**

Karen Shenton-Stone, Constable of St. Martin.

**Scrutiny Officer:**

Simon Spottiswoode, Scrutiny Officer.

**Comptroller of Taxes:**

Richard Summersgill, Comptroller of Taxes.

**Deputy Comptroller of Taxes:**

Paul Eastwood, Deputy Comptroller of Taxes.

**The Minister for Treasury and Resources:**

Susie Pinel, Minister for Treasury and Resources.

**Assistant Minister for Treasury and Resources:**

Lindsay Ash, Assistant Minister for Treasury and Resources.

**Director for Financial Planning and Performance:**

Alison Rogers, Director for Financial Planning and Performance.

**Connétable R. Vibert of St. Peter:**

Richard Vibert, Constable of St. Peter, member of the Corporate Services Scrutiny Panel.

**Deputy J.H. Perchard of St. Saviour:**

Deputy Jess Perchard, member of the Corporate Services Scrutiny Panel.

**Senator K.L. Moore:**

Thank you. Minister, you say yourself in your Budget introduction that the Island has a strong financial base. Why then, at a time of uncertainty, does this Budget not provide a boost of confidence for the public. It feels almost as if the pause button is being pressed until the Government plan next year.

**The Minister for Treasury and Resources:**

We said we would produce a Budget that was balanced and stable, and my whole *raison d'être* since I have been a politician is affordability, balance and common sense. It has been produced with that in mind but also with, in mind, the uncertainty that is fairly certain European, if not global. We can only react to the U.K. (United Kingdom) situation over Brexit. So it is a hold it steady Budget and I do not think it is... the economy is doing well, employment is the lowest it has been for at least 10 years. So it is a very balanced, hold it steady, Budget.

**Senator K.L. Moore:**

With significant crisis in the public sector, for example, and also businesses asking for certainty with the unknowns with Brexit looming, could you explain your rationale for maintaining tens of millions of pounds in the Stabilisation Fund and the Consolidated Fund?

**The Minister for Treasury and Resources:**

The rationale behind that is that the - Paul can probably explain it better or Alison - Consolidated Fund is where we need to go if we need money fairly reasonably. The contingency or the rainy-day fund - these funds have all sorts of different names - is what we can access relatively slowly because it has got to be kept up to its maximum in case there is a massive problem. It is really a matter of we do have to make £30 million of savings in order to afford what the proposals are. There are, off the top of my head, about £100 million worth of bids at the moment from people wanting capital projects. This has all got to be funded. So we do not want to go over the top with capital expenditure until we know what the priorities are.

**Senator K.L. Moore:**

We will probably return to that later.

**The Connétable of St. Martin:**

In the U.K. Budget this week, the personal tax exemption threshold was increased to £12,500. This has closed the gap in comparison to our own thresholds. Could you have increased our personal exemption threshold by more?

**The Minister for Treasury and Resources:**

We have increased them to £15,400 for a single person and £30,000 for 2.

**Deputy Comptroller of Taxes:**

£30,800 effectively for a married couple after you put the second earner's allowance.

**The Minister for Treasury and Resources:**

Which we have also made more fair because previously a couple co-habiting had the 2 single persons allowance, which was more than the married couple or a civil partnership couple. So that has been elevated to make the equality there.

**Deputy S.M. Ahier:**

When considering the changes to income tax exemption threshold, did you give any consideration to changing the marginal rate of tax?

**Deputy Comptroller of Taxes:**

That was not specifically looked at as part from the Budget discussions this year with the Minister, no. So we looked at changes to income tax exemption thresholds, and obviously the Budget contains the proposals that have been outlined, but there were no specific discussions this year around ...

**Comptroller of Taxes:**

It is probably worth saying that the Minister is avoiding significant changes in the personal tax system while there is still a review of personal taxation going on. We are still working on a larger review of how to tax households in the future, where the lead options are either independent taxation or a more modern form of household taxation. When the States ultimately come to address that issue they will have to look at rates. So it seems premature to be thinking about rates before that occurs.

**Deputy S.M. Ahier:**

Given the forecast deficit between 2020 and 2023, and the need to find compensating savings for the waste charge, will you need to consider raising the marginal rate in the future?

**The Minister for Treasury and Resources:**

The compensation for the waste charge, which was £11 million that was not passed through, now has to be addressed for Infrastructure. There is also the £5 million per annum that was going to come from the Health Insurance Fund to help Health, which did not happen either because the health charge was not brought in. So all of these have to be addressed.

**Deputy J.H. Perchard:**

There have been criticisms that the removal of the marginal tax review for non-residents has forced some level of hardship for non-residents on lower incomes. You have proposed to introduce some

limits for the 2019 year of assessment. Why was this relief not to be implemented in the 2018 year of assessment?

**The Minister for Treasury and Resources:**

Again, the taxes officers will probably be better able to answer that but we have said that when we had the quite vociferous, you might say, complaints from people living abroad on low incomes that we have taken notice of it. I think we said in the last Scrutiny meeting that I will probably bring an amendment to my own Budget to say that we are addressing their concerns. We have taken advice from the law officers. Because of the way the tax is done in arrears, then it will be considered as an amendment to this Budget, but it cannot be implemented until the tax returns of 2019, obviously, because it is a 2019 Budget, because of the way the tax system is set up the claims then, which would have to be put forward after the tax submissions, would not be realisable until 2020.

**Deputy Comptroller of Taxes:**

There was some discussion, if I can put it that way, around effectively giving retrospective effect to the change, going back to the 2018 year of assessment, which we are already in. I think in the end the decision was taken that it would be a prospective change in respect of non-residents and applied to future years of assessments. So from 2019 onwards. So the change around non-residents, the decision was made for it to commence from 1st January 2019, the 2019 year of assessment, and to not backdate that change.

**Senator K.L. Moore:**

Why was it decided not to backdate it, given that this is a very small group that have been highlighted? I think their feeling is that this is a relatively very minuscule amount of money in terms of the public purse, therefore when they are experiencing such hardship why can a solution not be found that will help their predicament?

**Deputy Comptroller of Taxes:**

As I say, there are a number of discussions around that topic. In the end, the Minister has decided to make it just a prospective change into the future.

**Senator K.L. Moore:**

I am sure you will look forward to more communication from that particular group.

**The Connétable of St. Peter:**

The cost of a 3-bedroomed house was on average £567,000 at the end of June 2018. You have increased bands for first-time buyer relief so that relief is now available for properties up to £500,000. What evidence or rationale was this increase based on?

**The Minister for Treasury and Resources:**

On the Statistics Jersey Unit, who have said that the average cost would be £475,000, so we have elevated the first-time buyers' relief, if you like, of not paying stamp duty up to £500,000.

[11:15]

**The Connétable of St. Peter:**

Was any other research undertaken other than from the Statistics Unit?

**The Minister for Treasury and Resources:**

Obviously, we have had the recent F.P.P. (Fiscal Policy Panel) advice and the Taxes advice, so it is not just on one particular statistic, no. It is a very carefully rehearsed, if you are going to put £50,000 on the threshold for a relief on a particular issue then you have to work out what the consequences are going to be of that, what it is going to cost in lost revenue, and how we counteract that with an increase in revenue on the higher end taxes or stamp duty.

**The Connétable of St. Peter:**

Do you accept that properties at £500,000 are still out of reach of many first-time buyers and are there any other actions that you can use through the tax system, that would address this?

**The Minister for Treasury and Resources:**

What we have also done with this is to remove the stamp duty or land transaction tax on mortgages so that those approaching a first-time buyer unit of, say, £500,000 would also have their mortgage relief put to nil, up to £600,000, so that they are in the same equitable situation as cash buyers, which was not the case before. I think for a first-time buyer £500,000 is quite a considerable amount.

**The Connétable of St. Peter:**

On that note, the stamp duty mortgage relief, the threshold is £600,000, but the first-time buyer relief available on properties is £500,000. Is there any reason why there is a £100,000 discrepancy? Effectively, you are trying to help the same people but the thresholds are different.

**The Minister for Treasury and Resources:**

This is on the basis this is a 90 per cent mortgage.

**Comptroller of Taxes:**

I think it is also worth saying that part of your consideration was that you were predominantly helping first-time buyers but also mindful that once, say, a couple have got their first home, at the point they

came to want children and move to a slightly larger house, then that £600,000 limit was more helpful to those young buyers moving to their first larger property.

**The Connétable of St. Peter:**

Looking at the stamp duty bands, Jersey has 10 bands, the U.K. has 5. Have we considered reducing the number of bands and perhaps considering the top band in Jersey starting at £3 million rather than £6 million? Perhaps looking at the bands in between. I quite agree that our top band should not approach the U.K. top band of 12 per cent for a normal property and 15 per cent, in fact, for a buy-to-let property. So 9.5 per cent to me sounds like as far as we can go. But have we thought of starting that band at, say, £3 million rather than £6 million? Given that the U.K.'s top band starts at £1.5 million.

**Deputy Comptroller of Taxes:**

There have been a number of changes made to stamp duty in recent years, particularly over the term of the last Government. I think those changes that were made under that Government were focused on trying to raise revenue from the very top end of the housing markets and so the creation of the, in particular, say, the band up to £6 million and the £6 million-plus band. If memory serves me correctly the changes made under the last Government, as I say, were trying to raise additional stamp duty revenues from that very top end of the property market. I think if you look back over the history, if my memory serves me correctly, towards the £500,000 band before this Budget, I think you would have to go back to almost as far as 2004, since there was a change in the stamp duty rates at £500,000 worth of consideration. I think the creation of extra bands has been caused by a focus on trying to raise more money out of those buying the most significant properties on the Island. That is what has resulted in the number of bands that we now have.

**Senator K.L. Moore:**

How many sales were there in the £6 million-plus bracket last year?

**Deputy Comptroller of Taxes:**

I do not have that data to hand. I think I can safely say it is probably not very many. If it would be helpful to the panel I am sure we could provide you with some analysis by different bands, if that would be helpful.

**Senator K.L. Moore:**

Thank you. If I could just backtrack slightly. We have started to receive submissions in relation to our call for evidence on the Budget. Those submissions on the issue of first-time buyers do make the very valid point that although this Budget might be designed to assist those first-time buyers, there is a significant issue in that there is very little supply in that area of the market. What energies

have you put into ensuring that those people who might benefit from this change in the relief be able to purchase properties because they will be there available for them to buy?

**The Minister for Treasury and Resources:**

That is a point and we have received the same sort of thing, is that 3-bedroomed properties under £475,000 - under £500,000 - are in short supply, there is no doubt about it. That is the same across the board, be it private housing or social housing.

**Senator K.L. Moore:**

What discussions have been held at the Council of Ministers' level to ensure that this supply issue can be tackled?

**The Minister for Treasury and Resources:**

It depends which sort of supply issue. The social housing supply issue is being tackled.

**Senator K.L. Moore:**

We are talking about people buying their own homes here.

**The Minister for Treasury and Resources:**

Some of that is affordable housing. It would be first-time buyer housing. That is being addressed, as we speak. On another issue, it is supply and demand. Another issue is the supply of apartments, which people downsize into, therefore releasing their 3 or 4-bedroomed houses, which seems to be happening more and more. But there is not so much you can do to control the market in that way.

**Senator K.L. Moore:**

You say that the supply of first-time buyer homes in this price bracket is being addressed but yesterday when the Environment and Housing Panel heard from the Minister for Housing, his officers seemed to be indicating that the issue of supply really was not going to be tackled until the Island Plan was debated in 2020, because they could not or they did not see a way to find more sites to build upon until that debate.

**The Minister for Treasury and Resources:**

We do need to revise the Island Plan, and we are going to.

**Senator K.L. Moore:**

I thought you had a miracle genie up your sleeve that could offer, because obviously for young families this is, every year, a significant part of their lives. Waiting for years upon years has a detrimental impact on their well-being.



**Director for Financial Planning and Performance:**

Since Andium Homes has incorporated we now have them looking at more affordable housing, as well as just social housing. Obviously, we still have the monies in the bond, so we loan to them in order for them to get on with that. I think there is more in the pipeline and they have bought some sites. To be fair, they are getting on with the work. I think there has been a shortage but at least we have some evidence now that there is some coming along. You will remember we also have helped Parishes in the past where they have got their schemes within their own Parishes, and we have been able to assist them in terms of financing as well. That is something, if there are more schemes out there then the Minister for Treasury and Resources is more than happy to assist in any way we could.

**Assistant Minister for Treasury and Resources:**

To back that up, this week I visited with Andium the tremendous amount of sites they have got, Samarès, Le Squez, they are still finishing off. They are also doing a tremendous amount of renovation on flats that really were not fit for habitation, and they have completed gutted them. So there is a lot of work going on out there with the housing, particularly with Andium, they are doing some terrific stuff.

**The Connétable of St. Peter:**

I mentioned earlier that the U.K. has a higher band for buy-to-let properties in second homes. Would we consider looking at that perhaps at a later date? I mean it seems a justifiable way of raising more stamp duty.

**The Minister for Treasury and Resources:**

A higher band ...?

**The Connétable of St. Peter:**

It is 3 per cent higher in the U.K. across all bands if it is a buy-to-let property. In fact, unfortunately I ended up having to pay that in the U.K., so it is something I know a little bit about. Across the board in the U.K. it is 3 per cent higher, and I think it is something perhaps we could look at.

**Director for Financial Planning and Performance:**

You need to be careful that extra costs do not get passed on to the people that they are letting to of course. So we would need quite a bit of work behind that.

**Deputy Comptroller of Taxes:**

The only other thing to stress is from a tax administration point of view. The U.K., one of the things they have been looking at is around the fact of what happens if the person buys it while they are non-resident, and then becomes resident within a reasonable period of time after that. Do they then end up with a refund? That is not saying the U.K. are thinking of moving away from that, but they are just continually working through the administration challenges that come with that. There are just some interesting aspects of that measure as well.

**Deputy S.M. Ahier:**

Moving on to alcohol and tobacco duties. Do the increases to alcohol and tobacco duties form part of a wider strategy from the States in this area? For example, alcohol consumption has a considerable impact on health. Have you considered higher tax duties to be in line with tobacco duties?

**The Minister for Treasury and Resources:**

In this particular Budget?

**Deputy S.M. Ahier:**

Yes.

**The Minister for Treasury and Resources:**

Yes. Perhaps you would like to answer that.

**Assistant Minister for Treasury and Resources:**

I think the Treasury Minister was aware and mentioned in her pre-Budget presentation that I did not want any increases in alcohol tax at all. I do not think there is any real evidence that the higher prices have greatly reduced alcohol intake. What we also see is that people will drink, they will find a way to drink, and it affects the people right at the lower stratus of society because they will go out and still find that money and perhaps the families beneath them suffer for that purpose. I do not think we should be looking to keep putting alcohol up. It is already more expensive to drink in Jersey than it is in central London, and that is not good. You get a lot of tourists come over and one of the main points they make is how expensive Jersey is to come to. In the end, although I voted against it, it was agreed that we would impose some tax on alcohol. It is below the cost of living. R.P.I. (retail price index) was 4.5, we have gone for 3.5 on the alcohol. With tobacco I think the evidence is there, that it is a major health risk. So we did continue to put up tobacco tax, as was requested.

**The Minister for Treasury and Resources:**

There is obviously quite a lot of catch up to do on the tobacco tax as well.

**Deputy S.M. Ahier:**

But on the alcohol front, surely, we have a real problem with excessive alcohol drinking in Jersey. I think it is widely regarded as such. You do not believe that this is true?

**Assistant Minister for Treasury and Resources:**

I think there is a problem with drink but I do not think continually putting the tax up ... I think if we are being honest, when we are putting the tax up we are doing it to make revenue. There is no real health argument that is ... the health argument is always put out there but I do not think that is the reason we are doing it, partly because what it does drive people to is cheap alcohol in the supermarkets as well. So you are hitting the pub trades, the restaurant trades, and people are being driven to drink in the supermarket. So you find a lot of younger people will drink in the supermarkets before going out in the evening with cheap drink. Thus their arrival at licensed premises are probably the worse ... it puts the problem on to a licensed premises that they should not have to be dealing with.

**Deputy S.M. Ahier:**

So by your own admission, we are doing it to raise revenue, so why was the increase only 3.5 per cent and not in line with inflation at 4.5 per cent?

**Assistant Minister for Treasury and Resources:**

As I said, I do not think it should have been put up at all because I think it is running way too high. There is another part to that though, why it runs too high. Because the price of a pint of beer in Jersey is 50p higher than in the U.K. now, on average. However, our tax is slightly lower than the U.K., so there is a discussion to be had with the brewers and people who provide that, which I am going to have because again the hospitality sector is being hit by this. I will be having a chat with the brewers to see if there is anything we can do on that side of it.

**The Connétable of St. Peter:**

There is massive loading on a bottle of spirits. In fact our tax is fairly similar to the U.K. There is a massive differential in price and that has nothing to do with tax. The pre-tax cost to a bottle of spirits in the U.K. is around £4 to £5. In Jersey, mysteriously it is in excess of £10. So quite clearly somebody is profiting from that, and specifically to spirits that find their way into the Channel Islands.

[11:30]

Is that something you could look at? I mean £5 additional cost on a bottle of spirits is a massive additional profit margin.

**Assistant Minister for Treasury and Resources:**

I fully agree and it is something, as I said, I would like to talk to the brewers, I would like to talk to the suppliers and people bringing the alcohol in. At times, I hesitate to use the word “cartel”, but it appears that there is. It is a conversation that needs to be had. I know a few years ago we had a possibility when Wetherspoons were going to come in here. There was a big furore about that because it would allow unfair competition with Wetherspoons coming in, but things have deteriorated and if we do not address that for our hospitality sector then we would have to look at allowing other bodies to come in. That is my own view. It is not necessarily that of the Minister.

**Deputy S.M. Ahier:**

Sorry, Minister, referring back to the tobacco now. Tobacco duties continue to rise at a higher rate than inflation. Does there come a point when it becomes prohibitively expensive to smoke?

**The Minister for Treasury and Resources:**

That is a very good question. It depends on who you are talking to. I mean those who want to smoke will continue to smoke, whatever the cost. There was a proposition, I cannot remember whether it was last Budget or the Budget before, to reduce the amount of duty-free imports of cigarettes to 40; so 2 packets I think that is. I am not a smoker, I do not know. Which we looked into as well. But it was just not feasible because the manufacturers are not going to break their packets down into 2 lots of 20. So we looked at all sorts of initiatives on this front and I am not convinced that this huge increase will make the difference to those who really desperately want to smoke, in the same way as those who desperately want to drink will find a way to do it.

**Assistant Minister for Treasury and Resources:**

There is a danger also with tobacco that if you do put it up too much, I know we have discussed this, you do move in towards a black market in cigarettes, which you have seen in England. Particularly some of those cigarettes in England are not really the sort of cigarettes you want to be smoking. They are not properly made. So it is a danger. If you get too far down the line you move into territory we would not really want to be moving into, I do not think.

**Deputy S.M. Ahier:**

But from the duty perspective, if you continue to increase duty to a certain level and less people become smokers generally, then are you not just losing a revenue stream?

**The Minister for Treasury and Resources:**

Yes.

**Comptroller of Taxes:**

If you apply all the economic theory then the first principle is that price does affect both supply and demand for a product. The extent to which it does affect demand is the elasticity question. Elasticity of demand for tobacco is reasonably low. That is to say that people are going to be price resistant if they are really addicted to smoking. What treasuries typically do is try to maintain the value of their excise revenues while at the same time bearing down on consumption. So the U.K. Treasury, which has many more economists and statisticians than we do, does a lot of analysis around this. When the Chancellor does put rates up, what he is doing is either maintaining or increasing revenues but at the same time reducing consumption. The reality of course is that if you did do something extraordinary, like make a packet of cigarettes £100, demand would undoubtedly drastically fall. The risk of course is the one the Assistant Minister has highlighted, that you are then likely to fuel illegal consumption smuggling across border shopping and so on.

**Deputy S.M. Ahier:**

Just reverting back to tobacco on products. When rolling tobacco, when will it and cigarette import duties be equalised because there seems to be a differential between the rolling tobacco and the actual cigarette packets?

**The Minister for Treasury and Resources:**

There is, and that is why the rolled tobacco has increased steadily, in order to catch up with the manufactured tobacco. I do not know when that will be realised.

**Deputy S.M. Ahier:**

How long will that take?

**Deputy Comptroller of Taxes:**

I think if the current difference in the increase which has been proposed is maintained, I think from memory it is about 3 to 4 years before they then will be aligned.

**Deputy S.M. Ahier:**

How much extra revenue will be garnered by the equalisation; do we know?

**Deputy Comptroller of Taxes:**

Again, I do not have exactly that piece of data in front of me, but we can let you know how much is ... the vast majority of tobacco impôt duties is collected on normal cigarettes rather than hand rolling, but we can let you know the amount.

**Deputy S.M. Ahier:**

As an alternative revenue stream, have you considered introducing the same tax on vaping?

**The Minister for Treasury and Resources:**

No, because that is supposed to be the healthy alternative to actual tobacco.

**Deputy S.M. Ahier:**

But would it not be a good revenue stream?

**The Minister for Treasury and Resources:**

It might be a good revenue scheme and we also have to - while we are talking about revenue schemes - look at what we would do were we to own largely electric cars, where the revenue that we get from fuel duty comes from. It is a constant balancing act, as what we lose we have to gain from somewhere else.

**Deputy S.M. Ahier:**

So there has been no consideration for duty on vaping as yet?

**The Minister for Treasury and Resources:**

Not yet.

**Deputy S.M. Ahier:**

Thank you.

**Senator K.L. Moore:**

While we are discussing revenue streams, another one we are interested to understand whether it was discussed, was introduction of a sugar tax. Has this been under consideration this year, and if not, why not?

**The Minister for Treasury and Resources:**

Yes, it has been discussed. We are largely waiting for what the U.K. does on this consideration because our imports on fizzy drinks, for instance, are from the U.K. So we are waiting to see how they address the matter and whether the large manufacturers, Irn-Bru, have removed - you can tell I do not drink it - sugar and changed their recipe. Now Coca-Cola at the moment is saying they are not going to do that. But as our imports are from the U.K. on all those sorts of things, I mean there is some reference to people saying: "Well, remove the fizzy drinks from your children, let them drink fruit juice instead", but we all know that there is a huge amount of sugar in that, in confectionary, in ice cream. Where do you start and stop with the sugar tax? So it has been talked about, it has

been considered, and the general opinion is to wait to see what U.K. do because obviously our imports are from there.

**Senator K.L. Moore:**

We have seen no matter what impôt we might impose here in Jersey often our base price can vary extraordinarily, therefore it is not necessarily necessary to wait and see what another jurisdiction might do. If we have a genuine belief that there is a well-being rationale behind the decision those are the levers of Government, are they not?

**The Minister for Treasury and Resources:**

We understand the well-being of it, considering the obesity rate that is across the board. Not so much or necessarily in Jersey but across the U.K., but there is here as well, and well-recognised. It is not being ignored by any stretch of the imagination. But it is not something that we could implement independently.

**Comptroller of Taxes:**

I think one of the points is that if the U.K. is successful then most of the manufacturers will change their recipes. If they change their recipes to make them healthy then at one level you might say there is no case for action at all. That is why it is worth waiting and seeing, I think.

**Senator K.L. Moore:**

Yes. But as the Minister suggested, there is still a whole gamut of other products that contain sugar and sugar products. It is not simply soft drinks alone that are causing the obesity.

**Comptroller of Taxes:**

That again is where the U.K., with all the resources available to it, only limited it to sugary drinks because it was easy to do. I think once you go on to other sugar containing products then it becomes potentially an administrative nightmare. You would certainly want to see what the larger jurisdictions are doing before you embarked on that, I would suggest.

**Senator K.L. Moore:**

Thank you. We are going to move on now to vehicle emissions duty. I think the Constable of St. Peter is next.

**The Connétable of St. Peter:**

In the 2018 Budget, V.E.D. (vehicle emissions duty) was increased by 5 per cent and the bands were also amended. However, revenue is now £1 million less than originally forecast. Can you explain why the revenue is less than forecasted?

**The Minister for Treasury and Resources:**

Yes, this was an amendment brought to the Budget in 2018 from the Connétable of Grouville. I think it was applauded inasmuch as it was seen through, but it caused far more difficulties in the administration than it brought in in revenue, which is why we decided not to do anything about it this year. Inasmuch as people did not buy and import new cars, they just kept the old ones because the V.E.D. is payable on the import of new ones. Until we get a M.O.T. (Ministry of Transport) situation over here then we will not be able to address that issue. I think that was more or less the reason behind it.

**Deputy Comptroller of Taxes:**

Yes, as you know, the revenue against forecasts is proportionately, against what it was expected to raise, well down. So in this Budget we are collecting data to try and understand whether that is a consequence of reduced imports of cars or whether that is ... imports have stayed the same but cars have become less emitting; the move to less emitting vehicles has come to play. In light of the fact it was down what we decided to do was to pause this year on V.E.D ... it was a very material increase last year that was introduced in the Budget, to pause, to look at what is happening in V.E.D. and then to wrap it up within a broader review of the taxation of vehicles. Because, as the Minister has already alluded to, the other thing that we are very conscious about is the changes that may well be happening in respect of motor fuel duties, road fuel duties, and the impact of electric vehicles in that and the impact it will have. So the decision was made this year to leave V.E.D. alone, acknowledging the big increases made last year, and to wrap it up into a broader review that says: "Is the taxation of vehicle ownership and usage appropriate?" That is now going to be brought at next year's Budget or Government plan, depending on exactly how those 2 things come together next year. It was a pause, look at the impact that the changes have had last year. Clearly, we are not raising the revenue that was forecast at that time. Why is that and what can we do about V.E.D. in the future to make it a better tax?

**Senator K.L. Moore:**

Before the Constable asks his next question, I have been told that the sound quality is very poor and quite low. Could I ask everyone to make sure they are holding the base of their microphones, they draw them a little closer to them, and improve the direction so that people who are watching our live broadcast can hear us also. Thank you. Sorry, Constable.

**The Connétable of St. Peter:**

V.E.D. is not just on new vehicles. It is on second-hand vehicles. I think that is part of the ... although some of this is anecdotal it is based on comments that have been made to me. That certainly with commercial vehicles quite a lot of the commercial vehicles imported into Jersey were



not second-hand vehicles. There is a point at around 3 years where many U.K. business owners change vehicles and leasing companies dispose of them. In the past, reasonably large numbers of those have been imported. Last year's change, because of the change in banning particularly impacted commercial vehicles, and the increase has had a detrimental effect in that people hung on to older commuting vehicles when they cannot afford a brand new vehicle, and they have not been able to access those vehicles that were faulty before. Perhaps something that could have been looked at, given that this was introduced without any particular investigation; it was I believe just introduced, was it something like 2 weeks before, and just thrust into the Budget and voted on. I would say one would not like to see that again but perhaps it is something that does need looking at because we have created a situation where we have gone backwards, both in revenue and in reducing pollution.

**Deputy Comptroller of Taxes:**

To deal with the first question. You are right, the change did happen effectively ... this is open to States Members to do so, to bring amendments to the Budget up until 2 weeks before the Budget is debated. That amendment was brought, debated in the Assembly, and the Assembly decided to make that change. That is open to States Members and the States Assembly to do so. I think though, on this side, we acknowledge what you are saying about some of the slightly odd incentives that the tax is creating in the sense of absolutely you are ... the tax is sort of incentivising ... if I am importing a vehicle the tax incentivises me to pick the lower emitting vehicle over the higher emitting vehicle. But at the moment, the tax is not really incentivising someone with a high emitting vehicle to go and purchase and import a low emitting vehicle.

[11:45]

In some ways it is discouraging anyone from doing that. I think there is a recognition that the tax is maybe not achieving the aims that it should be achieving, and that is why, as we say, this year the Minister has proposed not to increase V.E.D., to leave it at the level that the Assembly set out last year, to take it away and wrap it up into a broader review of the taxation of cars.

**Director for Financial Planning and Performance:**

The other matter I would just bring into that, of course, was the Minister gave some relief in 2018 to the hire cars. There was a recognition that they had already sent out their prices before the Budget debate and therefore it put them in a difficult position, and therefore for 2018 they were given that relief, which would bring down your income against the forecast as well. That relief is removed at the end of this year.

**The Connétable of St. Peter:**

Have we consulted with them over the removal of that? Yes, we have. Thank you.

**Director for Financial Planning and Performance:**

Yes.

**The Minister for Treasury and Resources:**

They knew it was only going to be for the year and we have written to each one individually to remind them that it expires at the end of this year, for which they have shown appreciation.

**Senator K.L. Moore:**

Just picking up on the comment from the Deputy Comptroller there. Has consideration been given to an annual emission duty charge rather than a one-off?

**Deputy Comptroller of Taxes:**

As I said, the review will run into next year. I think that would be one of the options that would be on the table, as a way of looking at a different incentive. That is not saying that would be where the Minister ultimately ends up but I think that that option would have to be at least considered.

**Director for Financial Planning and Performance:**

Of course, it would have to be a joint discussion with the Minister responsible for transport.

**Senator K.L. Moore:**

And consultation, I would imagine, with interested parties.

**Director for Financial Planning and Performance:**

Yes.

**Deputy J.H. Perchard:**

Moving on to questions of capital programme. In the capital programme budgets are included for a new I.T. (information technology) system and additional modernisation but with no amounts allocated, so for example page 64 of the Budget, I think, and again on 66. Is it appropriate to ask States Members to include these items in this capital programme without knowing the amounts in advance?

**The Minister for Treasury and Resources:**

There is a breakdown of the capital programme with digital, with upgrading of the internet access that we have got, and the intranet. There is a breakdown of those costs at the moment that we have. But we also have to work out in the One Government plan, which will be after the Budget, to

be determined by June 2019, as to how we financially support all the C.S.P. (Common Strategic Policy) vision plans, so that all has to be worked out as well. So that will come forward but not part of the Budget, the C.S.P.

**Deputy J.H. Perchard:**

So we can expect to have those specific costings then due next year? Is that what you are saying? Yes. How will Members be informed of the Budget's smaller projects?

**Director for Financial Planning and Performance:**

The need for the head of expenditure is in line with the Public Finances Law. So in order for capital to be spent we have to have a head of expenditure, hence the creation without funding. What we would do is fund that within existing resources for 2019, because there is no more money. We have a fixed expenditure limit, as you will understand in an M.T.F.P. (Medium Term Financial Plan). We are looking at the bids from the chief operating officer, who is now in post, who is going to be driving this modernisation and digital strategy for the States of Jersey. Once we know more about what is needed in 2019, we will be looking at how we fund that and allocate that to that head of expenditure. There will be more to come in the next plan. As the Minister says, there is a great deal to be done. Our digital infrastructure is well below what it needs to be. In order for the States to be fit for purpose for a customer, there needs to be a good investment in this side.

**Senator K.L. Moore:**

It states on page 96 of the Budget that the balance of the Consolidated Fund in 2019 is due to be £135 million. It goes on to say that that is providing flexibility and developing funding proposals for the Government plan. So you are more than adequately funding these measures, are you not?

**Director for Financial Planning and Performance:**

In 2020, but we need to get on with it now, so in 2019 there will be some work ongoing and that has to come from existing resources in line with the rules around the M.T.F.P.

**Senator K.L. Moore:**

I see. Is there not a mechanism in such circumstances to release more funding? Surely the Minister would be able to go to the Assembly and ...

**Director for Financial Planning and Performance:**

It has to be a state of emergency and I am not sure that would class as a state of emergency.

**Senator K.L. Moore:**

Thank you. We are now going to move on to the economic outlook.

**The Connétable of St. Martin:**

In the light of the predicted deficits between 2020 and 2023, what measures are you considering to resolve the deficit?

**Senator K.L. Moore:**

Would you like to take that one, Richard?

**Comptroller of Taxes:**

Well, obviously the Minister has announced a number of reviews of taxation. We are still looking for ways to increase sustainably revenues to the States. The Chief Minister has additionally announced a further drive on the efficiency and States expenditure, which has obviously been driven through the chief executive. I think those are the 2 principle levers available to Ministers to balance the books in the longer run and to create sustainable sources of funding.

**The Minister for Treasury and Resources:**

We also have the lowest unemployment rates that we have had for over 10 years. Of course, that then decreases the benefit outgoings. The F.P.P., I do not know if you were at the presentation the other day, were very positive about where we had got to, which is encouraging, because they are not always so positive. The Business Tendency Survey has also been quite positive. If you are looking at 2020 to 2023, it is very difficult to predict or forecast anything at the moment. I know the answer is always the uncertainty of Brexit. However, of course, until we know where we are going with that it is difficult to do anything other than move on what we have in front of us at the moment.

**Director for Financial Planning and Performance:**

Some of that deficit, obviously, is the effect of some of the decisions that have not happened in the last administration. The waste charge, for example, we have to give that £11 million back to the Department for Infrastructure, as they are currently. As the Minister alluded to earlier, the replacement of the H.I.F. (Health Insurance Fund), so that is £16 million of that sort of £30 million before you even start. There will need to be a number of discussions among States Members in terms of how we are going to deliver that requirement in the next plan.

**Deputy J.H. Perchard:**

Minister, the F.P.P. also recommended that work be undertaken as soon as possible to identify savings and revenue measures that have not always been delivered and to find alternatives where necessary. What actions are you taking in relation to this?

**Director for Financial Planning and Performance:**

So that is exactly my point. That is what they are referring to. There was a plan to deliver a waste charge and there was a plan for a health charge. Neither of which were delivered. The Council of Ministers needs to sit and consider whether there are reductions in costs or increases in income in some way shape or form or a mixture of both, which is likely, in terms of addressing those matters.

**Senator K.L. Moore:**

When are those discussions planned to take place?

**Director for Financial Planning and Performance:**

Bearing in mind we will have a Government plan by summer next year, soon.

**Deputy J.H. Perchard:**

I was just going to try and pin you down a bit further than “soon”.

**Director for Financial Planning and Performance:**

I think at the moment the Council of Ministers has to agree the Transition Report, which is the next element to come before the States, so we can see how the expenditure will look in 2019. Once that has happened then the next large item for consideration would be the Government plan. I would say probably early next year, probably January is when the discussions will start.

**Senator K.L. Moore:**

What element of costing went into the proposed Common Strategic Policy? At the States Members briefing the Chief Minister clearly stated that there were a considerable number of items he felt were absolutely necessary to do. What information do we have that shows us what sort of amount of money he is talking about with the “must haves” on his list?

**Director for Financial Planning and Performance:**

Obviously, we have some numbers. There are very high-level numbers at this stage. Also we need to consider the timing of any of this expenditure. We have a board that looks at any need for expenditure that has not already been allocated to departments.

**Senator K.L. Moore:**

The Investment Appraisal Board?

**Director for Financial Planning and Performance:**

Absolutely. These form part of that. So we have some 100-plus bids. Some of those will be for C.S.P. priorities. Then we are having to look at what funding might be available in 2019 to get those

matters started that are more urgent. The 2020 to 2023 plan is where you will see the majority of that investment.

**Senator K.L. Moore:**

A considerable amount of money has been moved from contingency and made available to the Investment Appraisal Board, has it not, from the E.P.G.D.P. (Economic and Productivity Growth Drawdown Provision) Fund?

**Director for Financial Planning and Performance:**

It still sits in Contingency. It has not moved from contingency. The board is now responsible for filtering the requests and making sure that the right priorities are put in front of the Minister for her to consider for funding. The E.P.G.D.P. Fund is still there. It is a ringed-fence element of contingencies. When we look at bids for matters such as skills then that is where that funding will come from.

**Deputy S.M. Ahier:**

Minister, the Medium Term Financial Plan set out an aim that the Consolidation Fund should maintain a working balance of £20 million. This Budget shows an amount considerably in excess of this amount, with a balance of £135 million forecast for 2019. Have you changed the policy on the working balance amount?

**The Minister for Treasury and Resources:**

What we have, and I do believe we need to go back to the States for approval for the transfer of the £50 million that was taken from the contingency plan, which was supposed to go back into the Stabilisation Fund, which we wish to put back into the Consolidated Fund.

**Deputy Comptroller of Taxes:**

So as part of the Budget proposition this year, one of the decisions that States Members have been asked to make is about the £50 million that was intended ... in the M.T.F.P. Addition, I think it was agreed, that that money would be moved from the Consolidated Fund into the Strategic Reserve. This Budget is asking States Members to vary that decision, such that £50 million is moved out of the Consolidated Fund and put into the Stabilisation Fund.

**Deputy S.M. Ahier:**

The Budget refers to the increased Consolidation Fund balance providing, as it is quoted here: "Flexibility in developing funding proposals for the Government plan." What do you mean by "flexibility"?

**The Minister for Treasury and Resources:**

I think, referring to what Alison has just said, inasmuch as we cannot fund all the applications for monies, be they capital or extensions of capital that they have already had. There is just not simply the money to fund all that so the aforementioned I.A.B. (Investment Appraisal Board) come forward with proposals to us. Then we have to work out the priorities of what can be funded and what cannot. There has to be some sort of flexibility to allow that to happen.

**Deputy S.M. Ahier:**

So balances of the order of £135 million might be quite common in the years going forward?

**The Minister for Treasury and Resources:**

I do not think so.

**Director for Financial Planning and Performance:**

I do not think that is the intention. I do not think that the money sitting there not being utilised is the plan. We have been very fortunate in this M.T.F.P. that our income has exceeded expectations, so our balance has been better in the Consolidated Fund than we had anticipated. The rules around the M.T.F.P. say it is irrelevant if you receive more income, you cannot spend any of it. Therefore, we end up with a much bigger balance in the Consolidated Fund.

[12:00]

The flexibility that we need for the next plan is ... there are a number of things that we do not know what is going to happen. Brexit - dare I use the "B" word - is one of those. We do not know what that effect will be. But having the money is a good place to start, before you set your plan.

**Senator K.L. Moore:**

If we look back in time, there is a £140 million black hole being prefaced at the beginning of the last Government. We have ended up with £135 million sitting doing nothing for a year, while members of the public sector have suffered perhaps under that, because of the lack of wages keeping up with inflation. One could understand a great element of frustration. That is borne out in the letter from the Joint Unions that has been sent to the States Employment Board. What lessons are going to be learned from this situation?

**The Minister for Treasury and Resources:**

They are, Deputy. I mentioned flexibility and we have realised that having a 4-year plan, as was the current M.T.F.P. where, as Alison says, you cannot spend because you are restricted by the 4-year plan, and the proposal in the finance transformation, as I think was mentioned in the last panel

hearing, is that we have a rolling one-year programme over the 4 years of the next financial plan. That way you have far more flexibility to adjust each year, as opposed to being confined to 4 years, which clearly has not worked, inasmuch as we have money there that we cannot spend. That is possibly an answer to your question on flexibility.

**Director for Financial Planning and Performance:**

That is absolutely right. There are plans to change the Public Finances Law, which would give more flexibility, recognising that if you have a good year on general revenues. However, you need to be able to flex both ways. You could have a bad year. Historically, the Corporate Services Scrutiny Panel has criticised the Minister for being too optimistic about its income forecast. Thankfully we have been wrong the right way for the last few years and long may that continue.

**Senator K.L. Moore:**

We do have a very different Corporate Services ... **[Laughter]**. Thank you.

**Deputy S.M. Ahier:**

What is preventing you from coming back to the States Assembly to ask for approval for additional expenditure over what was approved in the Medium Term Financial Plan?

**Director for Financial Planning and Performance:**

Basically, the Public Finances Law, as it is written, does not allow the Minister to ask to spend more money without it meeting certain criteria and they have to be extraordinary matters, as opposed to just general matters.

**Deputy S.M. Ahier:**

Just moving back to the Stabilisation Fund, what is the rationale for not transferring more money into the Stabilisation Fund?

**Director for Financial Planning and Performance:**

So when we are looking at the 2020 Plan, utilising the funds in the Consolidated Fund is a normal matter. If you move more into the Stabilisation Fund there are extra rules and regulations in order to get that money out. So while we are working through the plan for 2020 to 2023 it makes more sense to leave sufficient money in the Consolidated Fund before you get to the answer of where you might want to be during the next plan. It does not mean that the Minister does not suggest that as a result of those discussions that we might move more into the Stabilisation Fund as part of the plan.

**Deputy S.M. Ahier:**



While we are on the Stabilisation Fund, of course, this was set up by Terry Le Sueur in 2006, and there was £32 million put in the first year and then £63 million transferred in 2009. By 2011 there was only £1 million left in the fund. So the money was fairly frittered away. Would that be the same intention this time round?

**Director for Financial Planning and Performance:**

The money was allocated through quite a robust process of fiscal stimulus. A number of capital schemes formed part of that. Also there was some money allocated to changes within the Social Security system.

**Deputy Comptroller of Taxes:**

The important thing about the Stabilisation Fund is that the purpose of the Stabilisation Fund is to support the economy during the economic cycle. In good parts of the economic cycle, consistent with what the F.P.P. are saying, you pay into the fund and then through the downturn in the economic cycle you then take money out of the fund to support the economy. In some ways, having next to nothing in the Stabilisation Fund in 2011 reflects where we were in terms of the economic cycle. Here we are now with F.P.P. advice saying we are probably towards the top end of putting money back in. That cycle that we are seeing is not a surprise in the light of how the economic cycle moved through 2008 to 2010, et cetera.

**Deputy S.M. Ahier:**

The Stabilisation Fund is used during economic downturn. Does that imply that we are in an economic boom at the moment?

**The Minister for Treasury and Resources:**

It has improved, without doubt.

**Deputy Comptroller of Taxes:**

The F.P.P. were just commenting the other week that the economy is probably close to capacity at the moment, so I think it is showing that the economy is in a strong phase at the moment. Their recommendation was if you are in that situation, you should be pushing money back into the Stabilisation Fund. That is effectively what this Budget asks States Members to do.

**Senator K.L. Moore:**

Thank you. We will move now on to the capital programme. Minister, this morning we have received a response from you to our letter of last week, which raised questions about the Ministerial Decision that was signed off some weeks ago now in relation to capital spend, particularly on items at the prison, Sandybrook and homes for autistic people. We have received overnight some rather scant

additional information, also provided by officers from other departments. We hope that that was not the sole basis of your decision making, because the information was, as I say, scant. Could you give us an update on what is the current state of those funds and what you intend to do with them?

**The Minister for Treasury and Resources:**

As you are well aware, Deputy Ahier has asked us to pull back on the transfer and there is 2 weeks from the announcement of the proposition in order to do that. We are waiting to hear back from Health as to where they are with this. I cannot remember off the top of my head when the meeting with the Minister for Health and Social Services is to discuss exactly where they are. It is just budget sense really that if money is not being used, and has not been used for 4 years in some cases, that you retract it for investment purposes and then the people concerned or the department concerned can reapply for a re-budgeted capital expenditure, and then it would go back to the States to approve that transfer again.

**Senator K.L. Moore:**

We have heard this morning that there are already 100-plus bids in at the moment for additional monies. Therefore, the department handing this money back is making a serious risk in that they will never be able to achieve those monies again if they are handed back.

**The Minister for Treasury and Resources:**

It is, as I say, part of the Budget. If it has not been spent then why would you just leave quite a considerable amount of money doing nothing when it can be reallocated? If the people concerned put forward a business case then it can be reallocated to them on the basis that it already has been. Part of the proposition mentions autism, properties in Trinity, and that has been rectified, in as much as a grant has already been given to them for premises elsewhere. The Sandybrook one was just sitting there, £1.25 million, on the basis that we had not had an updated business case from them.

**Senator K.L. Moore:**

One of the items, if I remember correctly, being smoke alarms with a sprinkler system, surely part of that money could have been done to improve the safety of the patients living in that hospital.

**The Minister for Treasury and Resources:**

Of course it could have been done; the money was sitting there to do it.

**Senator K.L. Moore:**

Given the Comptroller and Auditor General's comments about financial management, particularly in that Deputy, what pushback has there been on the department for their failure to enact and achieve what they set out to do when they requested those monies in the first place?

**The Minister for Treasury and Resources:**

When you say “pushback”, I think it came as a bit of a surprise to the newly politically managed Department for Health and Social Services that this money was sitting there.

**Director for Financial Planning and Performance:**

Just to be clear, in terms of the 100-odd bids that we have, they are for revenue not capital. Capital is different at the moment. Changes are likely in the new Public Finances Law, but at the moment it is dealt with very differently. Under good financial management we review budgets that have been sitting there for more than 6 months and we test whether any of that money is still required or whether it is free to be returned. When you get into capital schemes of £1 million or more, you will always find there are contingency sums. That is good financial management; to make sure that if it turns out that what you were planning to do is going to cost a little bit more or you have inflation because of the rules we have around capital means that it can often be quite a while before you can spend all of it, because you have to have the entire sum available. Most of these are small contingency sums no longer required, therefore, they should come back to the centre and they should be reallocated. The 2 schemes that do not fit that, obviously, are the Sandybrook scheme and the Children’s Home. Some of the money is still available for the Children’s Home. So £750,000 of it was spent in the way it was requested. The autism solution is now to be working with Andium Homes. Autism needed £1 million. In the last Budget we allocated that £1 million. It is sitting there. It is ready to be transferred as soon as Andium are ready to get on. So that sum of money is no longer needed. It is double counted now. On the Sandybrook side of things, historically we allowed bids to go into the capital programme without sufficiently robust business cases behind them. That lesson has been learned. That is why you end up with sums of money sitting there, without them really knowing what they are going to get on with, with those sums of money. That would not be the case if this was happening now. We have full business cases for these sorts of request for expenditure. When they then looked at what was needed to be done at Sandybrook, this was not going to give them anywhere near the money they needed. So our, Treasury’s, point was: “Then go away and give us the scheme, the business case you need to deliver what it is that that care home needs.”

**Senator K.L. Moore:**

In the meantime, it is causing some considerable concern among the residents of that home, who feel very keenly that it is the last publicly-owned facility of its kind.

**Director for Financial Planning and Performance:**

It is disappointing all round that the money has not been utilised in the way that we all thought it would have been. It feels like the right thing to do, to get the right business case and to push that

in the next Government plan as a priority. I am sure the Minister would be happy to have that in mind for the 2020 plan.

**Deputy J.H. Perchard:**

The States Disability Strategy includes an objective to develop respite and short-break services to individuals and carers. Would the decision not to progress the care homes for children with autism have an impact on this particular objective?

**The Minister for Treasury and Resources:**

No, because as we both mentioned, there is £1 million already allocated. We have spoken to Autism Jersey. What they want is a community hub, which they do not have at the moment, which is what is planned to be part of an Andium Homes scheme. This is addressing the situation that Autism Jersey had.

**Senator K.L. Moore:**

Thank you. Shall we move on to talk about the Revenue Administration Law in the time that we have remaining? You mentioned that the Budget also addresses this new law, which enables the creation of Revenue Jersey, which states revenues will come under the control of Revenue Jersey. Why is this necessary?

**The Minister for Treasury and Resources:**

I think Richard probably is best able to address this one, if that is all right.

**Senator K.L. Moore:**

The question being which States revenues will come under the control of Revenue Jersey?

[12:15]

**Comptroller of Taxes:**

In the first instance, obviously, all the taxes are looked after by the Taxes Office. The plan then is to integrate social security contributions in the spring of 2020. We will begin to assess and collect social security contributions as part of the personal tax system. It is also foreseen in the new States target operating model that we will take more responsibility for customs revenue matters. We are in very early discussion with the agent of the impôts about that. I think in the shorter term the likelihood is that Revenue Jersey will start to administer the excise duties, the impôt that are entirely domestic to Jersey, for example, the beer duty from the local brewery, the wine duty from the winery.

**Senator K.L. Moore:**

The aim being a more joined-up approach?

**Comptroller of Taxes:**

Yes, a more joined-up approach, hopefully some economies of scale and certainly the better management of risk. So, for example, if one of our officers is going out to do a G.S.T. (Goods and Services Tax) visit there will be greater opportunity to deal with some of the excise matters, the customs revenue matters at the same time. Where we do find people under-declaring income or profits then much better scope to bring the taxpayers affairs all up to scratch at the same time.

**Deputy J.H. Perchard:**

In the future, you will be able to charge interest on tax debts. How much do you expect this will raise in interest charges?

**The Minister for Treasury and Resources:**

There was an amnesty this year, up to April, for people who had not paid their tax to the full effect. That brought in about £1.6 million, if I remember correctly.

**Comptroller of Taxes:**

Yes, before the various changes to penalties and sanctions in the new law, we offered the disclosure opportunities the Minister says. We are still finalising the work on that. It has brought in about £1.6 million. In terms of interest charges, I do not have the figures with me. I do not think we have them in very precise detail, but we have certainly done some work on that as part of the development of business cases. I can probably write to you and give you an idea of that. We do have quite a lot of tax debtors, people who do defer paying their taxes. That is undoubtedly partly because we do not charge interest on tax debt, so it is much easier to borrow from the people of Jersey than from a bank. Sometimes businesses will use this quite deliberately as a cash flow management technique, from what I have seen. The intention is that the Minister will set an interest rate slightly above commercially available levels, so that it really disincentivises people from borrowing from the people of Jersey, rather than a commercial institution.

**Senator K.L. Moore:**

There are cases of genuine hardship. How will people who are genuinely unable to pay their bill be dealt with?

**Comptroller of Taxes:**

As for now, where people are in genuine difficulty paying a tax bill, it is always best that they come to us as soon as possible. We will usually try to reach an accommodation. We do make time to pay arrangements with people, if they cannot afford to pay.

**The Minister for Treasury and Resources:**

Also, if they genuinely made a mistake and can come to the Comptroller and explain why they genuinely made a mistake on their tax return, then they are not penalised.

**The Connétable of St. Martin:**

Moving on to high-value residents, you are making changes in the Budget in the arrangements for high-value residents by enabling Jersey rental income to be included in the calculation of taxable income. What is the reason for this?

**Deputy Comptroller of Taxes:**

In last year's Budget, the 2018 Budget, there were some fairly fundamental changes made to the taxation of high-value residents. Firstly, in order to increase the contribution that they were making; for newly arrived residents, I should stress that, effectively up to £145,000 per annum. Also, to ensure that if they did not have sufficient income to generate that liability, the new law would effectively top them up, so that they paid £145,000 worth of tax. That was the big change that we made last year. In the legislative drafting, however, one issue that has come to light is that you could end up with a situation where in order to pay £145,000 worth of tax you have to have income of £725,000. We had a situation where a high-value resident may have a significant amount of taxable rental income in the Island, but you could not take that into account when working out whether they should be topped up. So we could end up in a situation where a person might have £1 million made up of £500,000 of rental income and £500,000 of other income, say dividends or other forms of investment. The way the law worked was in working out whether they should be topped up we could only look at the fact that they had £500,000 worth of non-rental income. That was unfair. We were trying to get to a situation where we were guaranteeing that they would pay £145,000. The way the law was drafted it could result in them having to pay more than £145,000. So this year this is really a correction in the legislation to make sure it works as anticipated and as requested by States Members.

**Deputy J.H. Perchard:**

The policy guidance notes make it clear that in order to be awarded high-value residency in the first place you need to already have earnings over £725,000, which would mean you pay £145,000 in income tax. That is before you even get here, you have to be able to prove your economic value in that way. That is very clear.

**Deputy Comptroller of Taxes:**

Absolutely. As part of the application process, ordinarily any individual seeking that status would have to show that they can generate £725,000. However, things change. A person here in year 5,

for example, may have business interests which suffer massively from some unknown situation. We have also seen in the past that individuals go through divorces, which means the amount of income that they can generate is materially reduced. In the past, before the changes were made last year, the Comptroller could only tax them on the income that they generated. If they then did not generate £725,000, we could only tax them on the income that they had. That was the law.

**Deputy J.H. Perchard:**

I understand.

**Deputy Comptroller of Taxes:**

The law was changed last year and now for people in the new regime, those arriving this year, even if they have that situation where they do not have enough income, their income is not £725,000, the law will top them up to deem them to have an income of £725,000.

**Deputy J.H. Perchard:**

In effect, we are incentivising the purchase of property to rent out by high-value residents in case things go wrong and their income drops below the £725,000.

**Deputy Comptroller of Taxes:**

I do not think so. I think all we are saying is previously under the legal change that was made last year, we had a situation where if I were a high-value resident and I had taxable rental income that would be taxed in the Island, I could not take that into account when thinking: "Is my income in excess of £725,000?". That does not seem right. We should look at all of their income.

**Deputy J.H. Perchard:**

The requirement before they come is that income. Saying that we should then include Jersey rental income as part of an income they should already have upon being given high-value status seems a bit backwards. Surely, we should be ensuring that that income is sustainable in order to justify the awarding of such residency, rather than trying to stick plasters on it if things did drop below what is required to be a high-value resident.

**Deputy Comptroller of Taxes:**

Yes, I think I see your point. Absolutely, as part of moving to the Island and the due diligence that is undertaken around these people, one of the questions is: do they have the capacity to generate an income of £725,000? That is not particularly looking at how that income is generated per se. The question is: can they generate £725,000 worth of income? I know what you are getting at in the sense of: if they are not here, how have they got the property? The question first at the due diligence state is: can this person generate income of £725,000.

**Deputy J.H. Perchard:**

Forgive me, but I believe in the policy documents it states that they should have an income of; not could they potentially.

**Comptroller of Taxes:**

The other fact to count is that there are quite a lot of longstanding high-value residents who might shift into this scheme. There are also, as Paul says, the post-implementation review we published 2 years ago, demonstrated that there were quite a few high-value residents who had fallen on relatively hard times, shall we say, that for whatever reasons their businesses were not generating. If in those cases ... particularly when people are moving into retirement and are much older of age, they are perhaps shifting some of their assets into safer assets like property. Then it seems right that we should be able to take account of the rental income.

**Deputy J.H. Perchard:**

My concern is, of course, that by doing this we will then affect the people who are trying to help, in terms of housing profitability, because no one invests in property to rent out without making a profit. The more flats and things get bought up by high-value residents, the harder it is for locals, young professionals or first-time buyers or those downsizing, to afford to rent such properties.

**Deputy Comptroller of Taxes:**

There is another important point to mention there, which is we have been talking about this in the context of top up. Just so we are clear, Jersey property income cannot benefit from the 1 per cent preferential rate that is applied to high-value residents. It has to be taxed at 20 per cent. Everything I just said, you are right, the top-up mechanism is not seen as a bandage mechanism of: "Well this person never could make £725,000 worth of income. It is okay, we will top them up." That is not how it is supposed to work. The process works, as you say, by: can they generate an income? Have they generated an income of 725,000? Yes. Then they are meeting the economic criteria that we expected of them. If down the line then something happens and they do not generate £725,000 the good news is now that the Tax Law will top them up, so that they are making the contribution that everyone expected them to tax revenues.

**Deputy J.H. Perchard:**

I understand.

**Senator K.L. Moore:**



Could I just pick up on one point the Comptroller made? He referred to some high-value residents who are already in the Island on the previous scheme might join the new scheme. It was always made very clear that that was a ring-fenced position.

**Comptroller of Taxes:**

The Deputy Comptroller will tell me if I have got that wrong, but I think in the Tax Law it is open to a high-value resident who came to Jersey under a previous scheme to make an application to join the current scheme. We get very few of them. They are approved by the Minister.

**Deputy Comptroller of Taxes:**

Yes, in the end it is a sort of balancing act. The regimes have become, if I can put it this way, more expensive over time. So someone who is currently in the previous regime where they had to pay £125,000 with no top up, do they wish to move into the new regime, but if they do then they have to pay £145,000 per annum and they will be within the scope of the top-up mechanism. Sometimes there are commercial reasons, certainty, et cetera, that people want to move regimes. That option is there. But, just so we are clear, they can only move into a more expensive regime. They cannot move down into a less expensive regime.

**Deputy J.H. Perchard:**

The policy guidance notes published earlier this year, in March/April, my understanding was that the difference between the previous and new regime was the ability to buy property unless the house had been empty for 2 years prior to purchasing. Surely there could be an argument for the incentive of moving to the more expensive regime given that new freedom.

[12:30]

**Deputy Comptroller of Taxes:**

The thing we are talking about is about tax. This is moving around tax regimes. I could not comment nor would I want to on whether if you moved tax regimes it changes your ability to purchase property. I cannot answer that.

**Deputy J.H. Perchard:**

Okay.

**Deputy Comptroller of Taxes:**

On the tax side it is just about going into a different tax regime.

**Deputy J.H. Perchard:**

Okay. So it is possible that moving to the new tax regime does not result in ...

**Deputy Comptroller of Taxes:**

It may be possible, but we would need to check that for you.

**Deputy J.H. Perchard:**

Thank you.

**The Connétable of St. Martin:**

Following on from this, do you have any figures for how much tax is currently paid by high-value residents in relation to rental income in Jersey from property?

**Deputy Comptroller of Taxes:**

Again, I do not have it in front of me, but we can forward it to you.

**The Connétable of St. Martin:**

Thank you.

**The Minister for Treasury and Resources:**

It is my understanding that high-value residents have to pay 20 per cent on rental property. It is not 1 per cent after so many years. Is that ...

**Deputy Comptroller of Taxes:**

But we are looking for the quantum of tax?

**The Minister for Treasury and Resources:**

Yes.

**Senator K.L. Moore:**

Okay. Well, we have almost finished exactly on time. I thank you all for your very helpful answers to our questions. There has been a lot of ground covered today and we are grateful for your concise and explanatory answers. Thank you all. I close the hearing.

**The Minister for Treasury and Resources:**

Thank you very much, Chair.

[12:32]