STATES OF JERSEY

DRAFT BUDGET STATEMENT 2019 (P.114/2018): THIRD AMENDMENT (P.114/2018 Amd.(3)) – COMMENTS

Presented to the States on 30th November 2018
by the Council of Ministers

STATES GREFFE

COMMENTS

The Council of Ministers strongly opposes this amendment and encourages States Members to vote against it.

This amendment would halve the tax charged on the profits of Large Corporate Retailers which, from the 2018 year of assessment, are taxed at the rate of 20% where they exceed £750,000. Profits between £500,000 and £750,000 are taxed on a sliding scale, reaching the 20% rate, and the rates of tax on that sliding scale would also be halved.

Corporate retailers with profits below £500,000 would continue to be taxed at the rate of 0%.

The scheme broadly mirrors the existing scheme in Guernsey except that Guernsey taxes profits at the full 20% rate once they reach £500,000.

The amendment, if passed, would reduce 2019 and future receipts by around £3 million per annum. The amendment does not indicate how this very significant shortfall in revenues would be addressed.

No New Evidence

The arguments against the Large Corporate Retail Tax ("LCRT") have not materially advanced since the States Assembly last debated this issue in April. For comments produced by the last Council of Ministers on 6th April 2018 see –

Retail Tax: Rescindment of States' Decision (P.62/2018) – Comments https://statesassembly.gov.je/assemblypropositions/2018/p.62-2018com.pdf

States Treasury and Exchequer ("ST&E") remains committed to keeping this measure under review as and when data and evidence is submitted by affected retailers and their representative bodies.

It remains the case that the majority of retailers potentially affected by this taxation have simply not raised objections to its introduction with ST&E.

It is the view of the Council of Ministers that no further changes should be made to this scheme of taxation without clear evidence of real hardship to the affected businesses or to the health of the sector overall.

Engagement with Retailers

In order better to establish whether any retailer generating profits in excess of £500,000 is likely to suffer hardship, ST&E would need better to understand how those profits are used now. This would also help estimate any general detriment towards the retail sector.

Since April 2018, following the last (close) vote in the States Assembly to reduce the rate of tax on the profits of large corporate retailers, ST&E has been seeking information, via the Chamber of Commerce, better to understand how large corporate retailers currently use the profits they generate.

Typically, any profits that are being re-allocated to taxation might be expected to have an effect on decisions about investment; research and development; shareholder distributions; wage rises for employees; pricing; and so on.

No information or data has yet been made available to ST&E and ST&E now plans to extend its work into 2019 and to reach out to individual retailers. Additionally, tax returns for the 2018 year of assessment will begin to be furnished later in 2019 and will be helpful in assessing the taxable profits of our largest retailers.

Economic Advice Remains Sound

The Government's economic advice (contained in Appendix 11 to the Draft Budget Statement 2018) indicated that the introduction of the LCRT at a rate of 20% was unlikely significantly to affect prices. This remains the view of the Council of Ministers.

This economic advice was based on data on the local sector which demonstrated that, even if the tax were fully passed on in prices, the impact would be limited due to the fact that the tax will represent a very small part of the cost of most retail goods (as retailers tend to be high volume businesses with a relatively low margin on each individual product).

However, the economic advice concluded that it is unlikely that the cost would be fully passed on to consumers, for a number of key reasons:

- Only a small number of retailers are affected and they will often be competing against smaller retailers and against off-Island retailers, neither of whom will face the tax.

- Some of the retailers affected are likely to be branches of large UK corporate retailers with national pricing structures.

- Locally-owned large retailers will have less incentive to increase prices as local shareholders will be able to offset the corporate tax against any personal tax they would otherwise have paid on the distribution/dividend of those profits.

Industry have produced no evidence to contradict this economic advice.

Impact on food costs over-stated

It is understood that only a few retailers of food are affected by this taxation: other food retailers are not taxed at all and every household is free to seek out the best prices.

One corporate retailer has said publicly that its food prices will not be affected by this measure (JEP report on 23rd January 2018). Another has indicated that it is reducing food prices through a significant restructuring.

As a matter of fact, the retail price of food in Jersey has increased by 3.1%, on average, over the 12 months to September 2018, contributing +0.3 percentage points to the annual change in the headline rate of RPI of 4.3%.

Over the first three quarters of 2018 (the first year of operation of the tax measure), food RPI increased by 2.2% in the first quarter; 0.1% in the second quarter; and fell by 0.2%

in the third quarter. It is highly unlikely that the new tax measure played a material part in these changes given what retailers have said publicly.

Mutual Trading

While the last Government had agreed to review the tax position of mutual-trading organisations, their existence does – as it has since the co-operative movement began – provided a brake on the prices that can be charged by commercial retailers, especially regarding food.

Tax Differentials between the UK and Jersey

More broadly, it is unlikely that a one percentage-point difference between the UK rate (19%) and Jersey (20%) rate of corporate taxation will affect decisions about where retailers invest.

Locally-Owned Businesses Pay No More Tax Than They Ever Did

It remains the case that dividends paid to local shareholders will continue to bear no more than 20% taxation in total as tax credits are available in respect of any corporate income tax paid to offset against personal income tax.