STATES OF JERSEY

PROPOSED GOVERNMENT PLAN 2024 - 2027 (P.72/2023) – SECOND AMENDMENT (P.72/2023 AMD.(2)) – COMMENTS

Presented to the States on 7th December 2023
by the Council of Ministers

STATES GREFFE

COMMENTS

Summary

The amendment proposes to delete all references to the Regulatory Technology (RegTech) Super-Deduction in the proposed Government Plan 2024-2027, annulling the proposed policy. The consequence of the amendment is that financial services businesses will not receive an enhanced tax benefit from investing in regulatory technology. The Council of Ministers cannot support the amendment.

Deputy Andrews has justified his amendment to remove the policy on the grounds that:

- It appears "incredibly generous".
- Financial services businesses pay a diminutive tax rate of 10 percent.
- Companies will invest in RegTech with or without the incentive.
- The fiscal impact could be much greater than the expected £200,000.

RegTech Super-Deduction – current position

The proposed pilot programme is the result of a consultative effort between Revenue Jersey and stakeholders including the Jersey Financial Services Commission and Digital Jersey. It would incentivise financial services companies to invest in assets designed to improve productivity. Eligible companies would be able to immediately deduct 150% of operating and capital expenses related to technology used to comply with regulations to:

- prevent financial crime, combat money laundering, and combat the financing of terrorism;
- manage data, information, and cyber risks;
- manage risk and prevent fraud;
- report on regulatory activities and manage compliance.

The intention of the Super-Deduction is that businesses would be able to free up staff resources to focus on the kind of higher-value work that contributes to Jersey's prosperity.

In response to Deputy Andrews' main arguments:

1. Profitable companies will receive an additional 5 pence of tax relief for every £1 of investment in regulatory compliance technology. Currently they receive 10 pence of relief per £1 of spending on technology from reducing their taxable profits at the 10% rate (for capital expenditure this relief is spread over time). This will rise to 15 pence up front for both capital and operating expenses.

2. The RegTech tax incentive is aimed at financial services companies precisely because they pay corporate income tax at 10%. Most companies pay corporate income tax at a rate of 0% so they would not stand to benefit from any enhanced deduction. Additionally, financial services companies contribute over two-thirds of corporate income tax revenue and roughly half of overall tax revenues (after including ISE fees and income tax from people employed by finance companies). Ministers are determined to continue to support that vital industry by incentivising investment that will help companies to remain internationally competitive.

3. Jersey's financial services companies recognise the need to modernise their compliance systems over the medium term, but many are waiting to follow the

lead of their head offices or peers in larger financial centres. This runs the risk of Jersey falling behind in the adoption of regulatory compliance technology. The goal of the Super-Deduction is to provide an incentive for firms to act now and cement their position at the leading edge of the industry.

4. The fiscal impact is estimated to be relatively low in 2024 as most companies have already planned their spending for next year. Full take-up of the programme is not expected until 2025, with costs growing over the budget horizon. However, benefits are also expected to grow in the medium to longer-term, with taxable revenue gains from increased productivity by businesses and staff shifting into higher value-added jobs. This forward-looking outlook should be compared to a counterfactual where Jersey's finance industry falls behind on modernisation and we lose the competitive edge of our key industry, which is responsible for 40% of gross value added and half of all tax revenues.

Potential effect of the amendment

If the amendment were adopted, the RegTech Super-Deduction would be removed and companies would continue to be able to claim 25% of capital expenditure each year, carrying the balance in capital allowance pools to claim in future years. They would continue to be able to claim 100% of revenue expenditure.

Corporate income tax revenue in the Government Plan would be higher by £200,000 across the budget horizon (note, the amendment only instructs an increase of £200,000 in 2024).

Conclusion

This amendment would remove one of the Government Plan's key measures to support innovation and enterprise in Jersey. Alternatives policies to support industry through the tax system are limited, as financial services businesses are one of the few areas facing a positive rate of tax.

The Council of Ministers therefore asks the Assembly to reject this amendment.