

# STATES OF JERSEY

## OFFICIAL REPORT

**TUESDAY, 3rd DECEMBER 2013**

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[9:30]

**The Roll was called and the Dean led the Assembly in Prayer.**

**PUBLIC BUSINESS - resumption**

**1. Draft Budget Statement 2014 (P.122/2013)**

**The Deputy Bailiff:**

Very well, we now resume Public Business. The first item is the Draft Budget Statement 2014, P.122/2013, and I ask the Greffier to read the proposition.

**The Deputy Greffier of the States:**

The States are asked to decide whether they are of opinion - (a) to approve, in accordance with the provisions of Article 10(3)(a) of the Public Finances (Jersey) Law 2005, the estimate of income from taxation during 2014 of £639,513,000 as set out in Summary Table A of the Budget Statement, with the sum to be raised through existing taxation measures and the proposed changes to income tax, Goods and Services Tax, Impôts duty, stamp duty and Land Transaction Tax for 2014 as set out in the Budget Statement; (b) to approve, in accordance with the provisions of Article 10(3)(c) and 11(3) of the Public Finances (Jersey) Law 2005, the appropriation of £2,210,000 in 2014 and £1,460,000 in 2015 from the amount appropriated to growth expenditure in the Medium Term Financial Plan 2013 to 2015 to a revenue head of expenditure for each States funded body as set out in the recommended allocation of growth expenditure in Summary Table B; (c) to approve, in accordance with the provisions of 10(3)(d) of the Public Finances (Jersey) Law 2005, a capital head of expenditure for each of the capital projects for States funded bodies to be started or continued in 2014 (other than States trading operations) as set out in the recommended programme of capital projects in Summary table D totalling £88,892,000; (d) to approve, in accordance with the provisions of Article 10(3)(e) of the Public Finances (Jersey) Law 2005, each of the capital projects that are scheduled to start during 2014 in the recommended programme of capital for each States trading operation, as set out in Summary Table E that require funds to be drawn from the trading funds in 2014; (e) to agree - (i) that, following the approval by the States on 16th May 2013 of the proposition "The Reform of Social Housing" (P.33/2013) and in accordance with the provisions of Articles 10(3)(b) and 21 of the Public Finances (Jersey) Law 2005, the States be authorised to borrow up to a maximum £250 million in 2014 for housing purposes and that, in accordance with the provisions of Article 10(3)(f) of the Public Finances (Jersey) Law 2005, the amount borrowed by the States be transferred from the consolidated fund to the Housing Development Fund; (ii) in accordance with Article 3(3)(b) of the Public Finances (Jersey) Law 2005 that the purposes of the Housing Development Fund ("the Fund") be varied to enable the further provision and development of housing in Jersey and that - (A) the Fund be permitted to lend money up to a maximum of £250 million to Housing Trusts/Associations/Companies or bodies with the same purpose registered in Jersey in order that they can provide housing for Islanders, on terms and conditions to be agreed, after consultation with the Minister for Housing, between the Minister for Treasury and Resources, and the aforementioned Housing Trusts/Associations/Companies; (B) all administrative costs associated with the operation and maintenance of the activities of the Fund to be paid out of the Fund; (C) the Fund to be invested through the Common Investment Fund in accordance with its own published investment strategy, and that subject to the sanction by Her Most Excellent Majesty in Council and the subsequent coming into force of new Articles 3(3)(aa) and 3(3)(ab) of the Public Finances (Amendment No. 4) (Jersey) Law 201-; (D) all money due to the Fund, including any loan repayments and interest due from Housing Trusts/Associations/Companies, be credited to the Fund; (E) money credited to the Fund does not form part of the annual income of the States; (f) to refer to their Act dated 5th December 2006 in which they approved a revised policy for the use of the Strategic Reserve Fund established under

Article 4(1) of the Public Finances (Jersey) Law 2005 and agreed that the Fund should be a permanent reserve, where the capital value was only to be used in exceptional circumstances to insulate the Island's economy from severe structural decline such as the sudden collapse of a major Island industry or from major natural disaster and their Act dated 6th November 2009 in which they varied that policy and agreed that the Fund could be used, if necessary, for the purposes of providing funding, up to a maximum of £100 million to meet the States contribution to the Bank Depositors Compensation Scheme and/or to meet any temporary cash flow funding requirements of the Scheme established under the Banking Business (Depositors Compensation) (Jersey) Regulations 2009 and, in order to enable the creation of new hospital services as part of the proposals agreed by the States on 23rd October 2012 in adopting the proposition "Health and Social Services: a new way forward" (P.82/2012) - to agree, as an exception to the approved policy for the use of the Fund, that the Fund may be used for the planning and creation of new hospital services in the Island, and to approve the transfer of an initial sum of £10.2 million from the Strategic Reserve Fund to the consolidated fund in 2014 so as to provide for these purposes, in accordance with the provisions of Article 4(3) and 10(3)(f) of the Public Finances (Jersey) Law 2005.

### **1.1 Senator P.F.C. Ozouf (The Minister for Treasury and Resources):**

May I start by thanking the Deputy Greffier for reading the whole of the important Budget proposition? **[Approbation]**

#### **The Deputy Bailiff:**

Minister, if I may say so, it is to enable us to concentrate on the debate.

#### **Senator P.F.C. Ozouf:**

Excellent, Sir. Today's Budget is taking place at a time of cautious optimism. Our Budget today has been designed to put Jersey in an even greater state of readiness to take advantage of the gradually improving global economic conditions for the benefit of every Islander. It is, of course, set within the context of the States Medium-Term Financial Plan. I am delighted with the decision of this Assembly to move to 3-year budgeting for spending and income. This approach is working, and it is working well. The time and effort that the Treasury and indeed all States departments would have spent on short-term decision-making, to say nothing of Members' time that would have been used recently in negotiating, debating and agreeing spending for only one year ahead, is now being so much more efficiently and profitably deployed. Our collective efforts can now focus on service delivery, monitoring and planning for a better Jersey in the medium and longer term. This is why we can have a budget debate today and tomorrow and perhaps the day after that is not short-term but concentrates on long-term challenges that face the Island. I am grateful for the leap of faith by Members in making these important changes and I hope Members will agree that this Budget - the result of teamwork - is forward thinking. It anticipates opportunities so that Islanders can begin to feel the benefits of the improving global economic condition. This Budget supports our aspirations for economic growth, job creation, better education and better healthcare. Where is the evidence that the global economic conditions are improving? Since we lodged the Budget and I made the initial statement, there have indeed been a number of positive developments. The global economy, according to the O.E.C.D. (Organisation for Economic Co-operation and Development) continues to expand at the moderate rate of 2.7 per cent this year. While growth is uneven, it is expected to accelerate to 3.9 per cent in 2015. While the risks in Europe have receded, there is still a possibility that tension in the Eurozone could resurface and further brinkmanship over U.S. (United States) fiscal policy and the debt ceiling early next year remain a key uncertainty. It is against this global backdrop that the O.E.C.D. have said that the current expansion restart in the U.K. (United Kingdom) monetary policy remains appropriate, given the degree of spare capacity in the economy there. If the current trends continue, the normalisation of interest rates could start at

the end of 2015 and the latest estimates from the National Institute of Economic and Social Research are that the U.K. economy is now growing at an annual rate of about 2.5 per cent in the 3 months to October.

[9:45]

This is following 2 years of difficult stagnation. In its latest inflation report, the Bank of England said that the recovery has, in their opinion, finally taken hold and that the U.K. economy is growing robustly and lifting uncertainty and thawing credit conditions start to unlock pent-up demand although the O.E.C.D. at the same time recognise that significant headwinds, both at home and abroad, remain. The economic conditions locally are slowly improving and I am pleased to see that the latest results from the Business Tendency Survey show that most of the indicators have improved over the last year. In particular, business optimism is at the most optimistic period and point since the survey began in 2009. Last week, the Chief Executive of Jersey Finance said to me that local business volumes are beginning to replicate the upturn in business confidence reported in the city and this is encouraging news. It is also encouraging that average earnings growth this year across the economy was 2.2 per cent. This is the first time in 4 years that earnings have exceeded inflation and it is also higher than the earnings reported in 2012. At the same time, inflation has fallen sharply this year with R.P.I. (Retail Price Index) at 1.2 per cent in September. This is close to historic lows and well below comparable measures in the U.K. While, of course, inflation may not stay this low for ever, it is expected that this will not exceed our inflation target for the foreseeable future. This is good news for Islanders and businesses alike, especially those that export and need to continue to improve their competitive position in export markets. The Fiscal Policy Panel recognised in their annual report a moderate improvement in the economy too and they revised upwards their forecasts for 2013. However, the Council of Ministers recognise that this improvement, of course, does not reverse the squeeze that has been seen on Island income in recent years. That is why this Budget reduces the marginal rate of tax from 27 to 26 per cent. Today's Budget offers a tax cut to local people. In fact, 84 per cent of taxpayers are designed to benefit from this measure. I have already touched on the risks that the global and U.K. economies are facing and as a result, we cannot, of course, take anything for granted in terms of our future economic performance. The Fiscal Policy Panel are clear in their advice to us. Significant spare capacity will remain in our economy throughout 2013 and in 2014 too and they have suggested that the additional fiscal stimulus could be for that reason effective. That is the reason why this Budget also delivers a fiscal stimulus in 2014 that will particularly help our local construction industry. It is perhaps worth taking a moment to remind ourselves about the extent of the fiscal stimulus that we have provided to the economy in this year, in particular with the additional investment in housing and also to reflect on our plans for housing investment next year. Next year proposes further capital allocations of £89 million. Not only will this capital spending deliver significant support to the economy but it will deliver investment in key services, in housing, as I mentioned, but in housing and the start of improving our liquid waste infrastructure. The challenges facing the finance industry have, of course, been known to all Members. The recent crisis years have come from both economic pressures, from governments dealing with debt and changes in the regulatory framework. Nearly every global financial institution across major markets in every country of the world has been affected in some way, either by regulatory issues or by very large investor losses. Although Jersey has also, of course, suffered, the issues we have faced have been relatively modest in comparison with the other jurisdictions and constrained in comparison, of course, to many in the global community. There are many reasons why we have a successful finance industry: well-trained staff, good infrastructure, air links, a reliable - and if I may say - an effective judicial system, but I want today to recognise the role of the Jersey Financial Services Commission, our own regulator and supervisor, for their work in recent years. Through their prudence and judgment, we have avoided the worst of such losses that other countries have seen. They have steered the

Island through turbulent times with skill and fortitude in extremely difficult circumstances. It must be said that at times their approach has been questioned and certainly perhaps not widely understood but ultimately, as we stand here today, we can see that the results have been positive and I would like to take this opportunity also of recognising the outgoing Chairman of the J.F.S.C. (Jersey Financial Services Commission) for his contribution to the success of that organisation in recent years. **[Approbation]** Looking ahead, we can have every confidence that the J.F.S.C. will continue to achieve positive outcomes for us as we enter, we hope, more buoyant economic conditions. Alongside forward planning for States finances, we have been forward planning to create the right condition for the future growth of sustainable quality financial services. Eighteen months ago, we made a decision to undertake a detailed assessment of our financial services industry and the global consultants McKinsey were commissioned to report and assist us on this. This significant report, carried out in partnership with both the J.F.S.C. and J.F.L. (Jersey Finance Limited), has resulted in a clear action plan and a roadmap for the future. It has recommended plans for developing the trust and fund sectors along with a much clearer focus on our target markets in banking and across future planning for all financial services. In addition, when developing this evidence base, we have also been taking practical steps at a government level to promote the finance industry further. We have written to all of the leading chief executives of U.K. and European financial institutions and the Chief Minister and I have met and briefed a significant number of leading bankers and financial executives in the U.K. so that we can convey our message that Jersey is an important source of business for the U.K. economy. Jersey Finance has reprioritised and focused promotional efforts on the key strategic markets of the Middle East and Far East and increasingly across the Commonwealth. The current value of banking deposits from the Middle East is strong at 17.5 per cent and we expect this to grow. Jersey's robust connections with the Middle East are enhanced by the presence in Jersey of a number of Jersey Gulf-based banks here. Our relations with the U.A.E. (United Arab Emirates), who celebrated their national day yesterday, go, of course, from strength to strength and I am pleased also to have had my first meeting with the newly appointed Minister of the State of Qatar which was extremely productive and I am looking forward to furthering this relationship in meetings in Doha next Tuesday and Wednesday. Next year we can look forward to a number of London-based Middle East Ambassadors visiting Jersey. I would like to take this opportunity of recognising the effective work of the Chief Minister's Department and particularly the Minister for External Relations and his team in supporting all of these developments. Our traditional business markets of mature Europe and the U.K. are showing encouraging signs too with the U.K. returning to growth in 2013 after its difficult economic performance in recent years. We have now the legal tax and regulatory framework to help lift the funds industry and grow it further. The flexibility offered in our 2-tier approach to A.I.F.M.D. (Alternative Investment Fund Managers Directive) has encouraged inquiries from hedge fund managers interested in locations to Jersey and we have all been seeing successful examples of people coming to Jersey. This is the kind of high value low footprint business that we want to encourage. The commissioning of the Capital Economics report, documenting for the first time the value of Jersey to the U.K. in supporting over 180,000 jobs in the U.K. and providing approximately £9 million to the U.K. economy, has been extremely effective. The Chief Minister's attendance at the G8 summit was also a key turning point for the Island's reputation in the corridors of influence at Westminster and, indeed, throughout the city of London. Our message that Jersey was not a tax haven, was not the problem and is, in fact, part of the solution to U.K. growth, has been effective and now armed with the data from Capital Economics, we are able to provide real evidence, independent evidence, of the value of Jersey businesses to the U.K. economy. Having attended all the Party conferences this year, I detected a clear change in the way that Jersey is regarded by U.K. Ministers, Peers and advisers from across all Parties. British Ministers, British M.P.s (Members of Parliament) now have reasoned arguments to be supportive of Jersey and that support I detect is growing and widespread. Our shared agenda with the U.K.,

which includes zero tolerance of tax evasion and a commitment to transparency, was recognised, of course, by the U.K. Prime Minister himself who said: "I do not think it is fair any longer to refer to any of the overseas Territories and Crown Dependencies as tax havens. They have taken action to make sure that they have fair and open tax systems." During my recent trip to the I.M.F. (International Monetary Fund) global bank meetings, I detected an upturn in confidence too. Perceptions of Jersey are shifting. Another key Minister I had the opportunity of meeting on a one to one basis was the South African Finance Minister and we look forward to developing our relationship with South Africa, particularly in their important regional work on tax compliance. The Chief Minister's endeavours are working and it is encouraging to see that the Secretary General of the O.E.C.D. wrote to him in July to congratulate the Island on the measures we have taken to support the international tax transparency agenda. Despite the challenges faced by the finance industry, there is now every reason to be positive and that is now not least because we have got the Standard & Poor independent assessment which is so positive of Jersey's financial strength. Standard & Poor, the leading credit agency, assigned Jersey a long-term double A plus credit rating with, what is more, a stable outlook, together with the highest possible short-term rating. This exceptionally high credit rating demonstrates to the world of our high quality level of credit and public finances. Furthermore, the stable outlook in a world of considerable uncertainty indicates both certainty and confidence that they have in our future and we should too. S. & P. (Standard and Poor) commented that the stable outlook reflects our view that Jersey's high wealth and its strong public finance policy and setting of government finances and I think that every Member should take warm congratulations for that assessment for their part in delivering that credit rating. That rating underpins increasingly our strong international reputation and provides the government of Jersey with the opportunity next year, I hope, subject to Members' approval, to issue the first sterling rated bond at competitive interest rates as a method of financing our future housing needs. While our finance position and reputation remain strong, we must, of course, be mindful that unemployment remains at very high levels. The unemployment rate increased from 4.7 per cent in March 2011 to 5.7 per cent in June 2013. Over the same timeframe, registered 'actively seeking work' increased from 1,300 to 900 people. Back to Work is, however, helping to minimise the costs to both the individual and society of the current levels of unemployment and we are ensuring that we can do everything we can to get those people who find themselves out of work, particularly the young, back into employment as quickly as possible. Having lost 700 jobs in the fulfilment industry, the unstoppable use of the internet for retail and the inevitable loss in financial services, it, I believe, was quite possible that without the efforts of the Minister for Social Security and the Back to Work initiatives, our local unemployment levels could now be in excess of 2,500. That has not happened and I do not believe that it is by accident. However, when people lose their jobs, they can become under so much financial pressure that we also realise that they can resort to borrowing at very high rates of interest and that is a concern that the Council of Ministers has. I can say today also that the Treasury is now working with the Community Savings organisation to explore the opportunities of a Jersey-based credit union which is a facility that could offer most cost effective and sustainable ways for people to save and borrow. This Budget cements support for economic growth and diversification in all key areas of our economy. The Minister for Economic Development will be shortly publishing new strategies for economic growth and development that are designed to deliver high value and high growth business and raise the productivity of the whole economy. I also would like to take today the opportunity of recognising and thanking the work of the Minister for Economic Development through what has been, I think we all realise, a very difficult time for him. He has continued to work and his department is delivering results. **[Approbation]**

[10:00]

That additional funding that we provided to the Minister is supporting growth and, as I say, is delivering results. In the first 9 months of this year, Locate Jersey has delivered 28 new businesses

which have created 245 new job opportunities; 235 of those jobs are for local people. These new businesses are, of course, also encouragingly in a range of sectors. It is encouraging that 103 of those job opportunities are within the I.C.T. (Information and Communication Technology) and e-commerce sector. This is an excellent example of the drive to diversify economy through the development of the digital sector. While it is vital that we diversify our economy, we must, of course, support other sectors that form the bedrock of our community, particularly in the area of retail. In 2014, using plans allocated through the M.T.F.P. (Medium-Term Financial Plan), the Minister for Economic Development in conjunction with, I am pleased to say, the Chamber of Commerce, will make an investment in a series of initiatives in Jersey's retail sector so as to attempt to capture more sales from the ever-rising growth of the internet. As well as looking after the local economy, this Council of Ministers continues to take action to support local people and, of course, especially our valued elderly community. The Minister for Social Security will be debating next week his new long-term care scheme that is designed to help Islanders pay for care either in their own home or in a care home. If the States Assembly agrees, benefits from this new long-term care scheme will be paid out from July 2014 and offer greater protection to Jersey families. However - and this is important - contributions to the scheme have been deferred and will now be phased-in from January 2015 at 0.5 per cent of taxable income, rising to 1 per cent in 2016. The Treasury has worked extremely well with the Minister for Social Security and his team to make it possible to reallocate some of their existing spending so to avoid the need to introduce the planned 1 per cent contribution next year as originally intended. This will mean that a further squeeze on Islanders' disposable income at a time of continued economic uncertainty, will not happen. I am pleased to say that the Fiscal Policy Panel has agreed that such an initiative was advisable, given the economic output and I must thank the Minister for Social Security and the Minister for Health and Social Services for their help and support together with Treasury in developing the funding and collection mechanisms in order to ensure that this scheme can be brought into effect in a fair way and a proportionate way. In addition to helping stimulate economic growth and deferring the implementation of a long-term care charge, this Budget proposes significant allocations to capital in 2014 which, as I have said, is designed to provide a fiscal stimulus. For this to work most efficiently, expenditure, of course, must be timely and it must be spent. The Fiscal Policy Panel's report emphasised the previous delays in getting capital that this Assembly had allocated spent and that we needed to change. We have now allocated funds to support schemes that will deliver service improvements to the Island but I have to say that all departments and Ministers will continue to work extremely hard to ensure that all of the projects that are set out in the Budget debate start and moreover are delivered on time. Looking ahead, the F.P.P. (Fiscal Policy Panel) also highlighted the risk that future capital expenditure, which will be the subject of this Budget debate, has the risk of overheating the economy. What I am pleased to say here is that our now more vigilant approach to longer term planning means that we have got sufficient warning to ensure that the supply side - particularly within the construction industries - can be encouraged to grow at the right time in the next few years. That industry can place itself to meet that demand so that we can ensure that both the public demands on the construction industry and what we hope is going to be increased private sector demands can be met. The action to prepare for this economic recovery will mean putting a number of initiatives in place to build capacity, training people that are currently seeking work, encouraging young people to think about careers in construction and looking at the way we license construction companies to ensure that there is healthy competition which, at the end of the day, is going to ensure that prices do not rise. It is positive that the F.P.P. supports our plans for that significant investment in 2013 and 2014. Now, with regard to the F.P.P.'s recommendation that we should define the purpose and optimal size of the Strategic Reserve, I want to make 2 important points. Firstly, the purpose of the Strategic Reserve has been agreed by this Assembly as a permanent reserve to insulate the Island's economy from severe structural decline or from a natural disaster and, indeed - if ever it were needed - to meet the initial



contribution to the banker depositor compensation scheme. Secondly, this draft Budget proposes an additional purpose to that Strategic Reserve proposition, namely to fund hospital facilities but it is from investment returns from the Strategic Reserve that that is being made. The Council of Ministers and I wholeheartedly agree that the funding of new hospital facilities done in this way, with no increase in taxation and no debt, will be the right benefit to Islanders now and into the future. Moreover, it is consistent with the objectives and our existing fiscal framework. I have, of course, the sole ability to make withdrawals from the Strategic Reserve. When withdrawals are made, it will only be done in accordance with the approved policy. I agree that also as a result of the Public Finances Law - which puts the F.P.P. on a statutory basis - to consult the F.P.P. on those withdrawals. The controls on the Strategic Reserve I would argue have been extremely restrictive and they have been extremely effective in protecting that reserve from inappropriate short-term use and we now have the opportunity for those reasons to make the significant investment in hospital services without the need to raise taxes. However, I do agree that controls can always be strengthened and improved. I am proposing a strengthened definition of that capital within the Strategic Reserve Policy 2006. I am going to confirm also that the role of the Stabilisation Fund should be clarified and we should set out how it is going to be replenished. I also agree that the arrangements for the repayment of the Housing Bond through the Housing Development Fund should be clarified. In summary, I consider that the safeguards for the Strategic Reserve are extremely strong. However, the actions that I have just described - I believe - will strengthen the arrangements even further and I hope that this further clarity is enough for States Members to approve the initial withdrawals from the Strategic Reserve for the health investment in a new hospital. I am grateful to the F.P.P. for their work and I warmly welcome their complimentary remarks that they have made in the improvements in reporting, monitoring and the implementation of their previous recommendations. I should also like to take this opportunity of recognising Senator Ferguson and her panel for the Scrutiny Panel Report on the Budget 2014. There are many positive and constructive comments made by the panel and the Treasury has issued a full response to their report which I hope is helpful to this debate. Turning to the specific measures for this Budget, Members will recall that our key tax policy principles were set out and agreed in the M.T.F.P. Taxation should be necessary, justifiable and sustainable. Taxes should be low, broad and simple. Everybody should make a contribution to the costs of providing government services while those on the lowest incomes should be protected. Taxes should be internationally competitive. Taxation should support economic development and, where possible, social policy. The Medium-Term Financial Plan that Members approved assumed that there would be no significant tax policy changes over the period of this Assembly and therefore it is for this reason that this Budget is consistent with all of those principles. But this Budget continues to do more than that. It provides more stability and certainty in the tax system to enable growth in the economy and encourage investments. Members are, of course, aware that there are 2 measures in this Budget that will provide a tax cut for approximately 84 per cent of Jersey taxpaying individuals. That means around 40,000 households will benefit if Members approve the proposals today. The 2 key measures to reduce the marginal rate from 27 to 26 per cent and to increase exemption thresholds by 1.5 per cent are bold. These are tax cuts but, of course, they do not apply to higher earners who are in the '20 means 20' tax bracket. The overall costs of these initiatives are approximately £10.3 million. I was also pleased with the good work and good relationship with the Minister for Education, Sport and Culture to propose help for parents with children in higher education. At present - and the Minister has been concerned about this - parents with children over the age of 17 currently receive a tax allowance of £6,000 per child and that is available to all taxpayers. What this Budget does is it provides additional tax relief to parents in the marginal relief of £3,000 per child for each child in higher education. This proposal effectively is a tax cut for each child at university or higher education worth £780 and this measure in itself is costing nearly £1 million. Also, we have ended the restriction on Child Allowance by reference to a child's

earned income that they can make. There are a number of other amendments to the Income Tax Law of which I am sure Members are aware. The important ones are the lifting of the entitlement to higher exemption thresholds for 63 to 65 which will be the subject of an amendment debate. We are changing some arrangements for I.T.I.S. (Income Tax Instalment Scheme) to restrict credit available to controlling directors dealing with our policy on reducing avoidance and we are removing the 3-year residence rule for making lump sum donations. We are also permitting, with certain strict criteria, that existing 1(1)(k) residents can apply to be taxed under the new post-July 2011 regime but only when they develop and extend businesses here. We are strengthening legislation on interest deductions to counter non-commercial debt financing, again an issue on tax avoidance; and we are revising the relief due to the self-employed in respect of Social Security contributions and responses to changes that the Minister for Social Security has made. We are also amending further to clarify the distribution rules that we introduced last year so that they can operate as intended. It is important that the tax system continues to operate as intended and many of these proposals are aimed at clarifying the law and provide more certainty and, of course, safeguard our tax revenues. There is no change to the rate of G.S.T. (Goods and Services Tax) which will not be a surprise to Members which is kept at 5 per cent. We are, however, making some further additional minor changes to G.S.T. to deal with anomalies and Members will know these as they are set out in the Budget report. Perhaps with some degree of hesitation, I turn to the issue of duties. In line with the amendment that I have brought forward, the revised impôts increases are to increase a bottle of spirits by £1.26, a bottle of wine by £5 and the standard - I am told it is a working man or woman's pint - by a 1p amount. We are, however, also now proposing to issue a lower band of duty on low strength beer and this new band of duty will be calculated at 50 per cent of the standard duty rate. We are, however, continuing with the 6p increase on strong beer and cider and we are also continuing and will be arguing strongly for the 47p increase on a packet of cigarettes. We are proposing a penny on the increase on unleaded fuel duty. It is proposed that all of these measures take effect from midnight on 31st December 2013 but perhaps we will come to this in the major debate. It is important that perhaps Members and members of the general public understand that this duty increase only affects the amount of product going into warehouses and we will come to the important issue of why products seem to rise at the same time that the Budget duty increases go into warehouses. I do not see any justification for that but we will come back to that later in the Budget debate. Why are we proposing increases on alcohol and tobacco? Well, firstly, they are aligned with the health strategy. We have to have a frank discussion about alcohol consumption in Jersey. We have chronic liver disease up to 40 per cent higher than can be expected in England and Wales. In 2010, the Health Department counted 2,373 admissions attributable to alcohol abuse. As regards tobacco, we have 200 smoking-related deaths in Jersey every year and the cost to the health service, let alone the individuals and their families and friends, is, of course, considerable. Furthermore, the recent report issued by the Minister for Home Affairs - Building a Safer Society - shows that over half the crimes in the Island involve alcohol and there has been an increase in night-time assaults in St. Helier. The proposed duty increases on alcohol directly support these aims, to reduce the cause of harm in society by alcohol.

[10:15]

They are not, of course, the sole solution but they are, we will argue in this debate, part of the solution. In terms of the commercial impact of the proposed duties, while those in tobacco and alcohol industries have lobbied for lower duties - and we are going to hear much about this no doubt in this debate - they have still not explained why it is that when you strip out duty and tax, underlying costs in all of these products are so high. It has been shown time and time again that keeping duties the same - the benevolence of States Members - does not result in lower prices to consumers. Specifically in relation to alcohol, there has been some speculation that the retail price in the U.K. that we set out in the Budget report does not accurately reflect the pre-tax prices being

achieved by local suppliers. I have analysed this further. The U.K. and Jersey figures show that, for example, on a pint of a standard bitter, the duty proposed in Jersey is lower. It is 35p in Jersey versus 49p in the U.K. G.S.T. at 5 per cent compared to 20 per cent means that there is 16p on a pint of beer in Jersey and 48p in the U.K. Yet the price of beer at a standard pub in Jersey is £3.28 as opposed to £2.87 that I found in the United Kingdom. I have looked at pub prices. I have been in pubs in the U.K. to check out these issues for myself and I have seen that there is clearly an issue that we have to take seriously in relation to competition and the alcohol industry. The issue of fuel duty is, of course, sensitive and the issue is that we have only increased fuel duty once in the last 5 years - and I am going to argue that a 1p increase in fuel duty is an appropriate thing to do. Generally speaking, on the issue for duties, I would like to sincerely thank Senator Le Marquand, the Minister for Home Affairs, for his help and also the Minister for Health and Social Services and the Minister for Economic Development for their support in assessing all of these serious issues and providing what I hope is a compromise to the concern raised by a number of Members. The housing market is an important area and this Budget proposes to continue to extend the maximum threshold for first-time buyer relief from £400 to £450 for one final year. At a time when the housing market is beginning to show slow signs of recovery, we should do everything we can not to disturb that progress. In the Medium-Term Financial Plan, the States agreed a central growth allocation for 2014 and 2015 which would be allocated in this year and next year's Budget. The Council of Ministers are proposing to allocate the growth of £2.2 million in 2014 and £1.5 million in 2015 and it will be allocated to the departments that were set out pretty well in the M.T.F.P. The allocation for capital, as I have said, is an important part of fiscal stimulus. The review of the indicative capital programme that we have identified over the last few years has resulted in a few changes since the debate last year, particularly in the area of the Minister for Education, Sport and Culture's primary school accommodation and we are proposing here to make a change to the allocation that we envisaged last year to allocate money to the Minister for Transport and Technical Services for works at Green Street car park and also Education, Sport and Culture for work required to meet their sports strategy which I hope is going to give a real boost to the Island Games in 2015 and also I am pleased to say it is important for Parish projects too. The allocations are set out in the Budget report and I will not go through them now. I would like, and I know I am thanking quite a few people, but there is one special person that I would like to thank at this stage of the debate. I would like to recognise my Assistant Minister, Deputy Eddie Noel, for all of his work **[Approbation]** generally in the Budget but particularly in the work that he is doing in Property Holdings to make sure that projects are spent and spent wisely and quickly. We have got an exciting capital project and I also am grateful for the work of him and Deputies Bryans and Le Hérisier for their work on Rediscovering Fort Regent. I think their report is positive, I think it is optimistic, and I think their catchphrases of Rediscovering Fort Regent, rediscovering forgotten gardens, and a Town Park too, show their determination and this Assembly's determination to make real progress on Fort Regent over the next 12 months and I hope that their work is appreciated by Members. **[Approbation]** This Budget is different to previous Budgets because we are dealing for the first time with serious long-term investment in our infrastructure; 3 areas will command this Assembly's attention: first, housing; secondly, hospital; thirdly, liquid waste. In order to improve the quality and standard of housing that the Island meets, we are proposing that Jersey's new excellent credit rating is utilised in order to borrow funds at historically low levels for investment in housing. Last night, the editorial of the *J.E.P. (Jersey Evening Post)* said: "Ozouf, a legacy for debt?" I was disappointed with this editorial which I will address later on in the debate. This is not a negative legacy of debt, this is a positive legacy of investment in our social housing, **[Approbation]** improving the standards of social housing, creating more social housing, doing the right thing and investing in a way that is a far more appropriate way of allocating money for social housing than the Annual Capital Programme that we have seen in the past. Moreover, the Minister for Housing, if I may say, is different to other Ministers. He repays his debt because he has got the

income to pay for it rather than a circular route of allocating more annual revenue. I think the editorial needs to be rewritten. I think we need to have an editorial which says: "Positive legacy of positive investment in our housing" and I will deal next, if I may, that is hardly a rescue plan in my opinion. But dealing with the rescue plan, I think we need to rescue the *J.E.P.* from their figures because they also said that we are going to spend in this debate £500 million on the hospital. Now, I know the Minister for Health and Social Services perhaps thought that all her Christmases had come at once **[Laughter]** but her strategy of caring for each other and caring for ourselves was approved unanimously by this Assembly and the Treasury since then has been working on an effective and appropriate Budget for the hospital and also where those hospital investments should be made, moreover, and I repeat again, what that appropriate Budget should be. There has been excellent work done by Property Holdings again, and the Health and Social Services Department, and I am very confident that the new dual site proposal based on the General Hospital and Overdale is the appropriate way forward for our future hospital services. More than that, rather than simply dealing with a greenfield site which had all sorts of risks for the Island, the phased approach in investing in our hospital services means that we can deliver improvements more quickly without delays and we will not also have the enormous risk of capital overspends because of the phased approach. I believe this is a prudent approach and I also confirm that the amount that is allocated to the hospital and the amount that we are setting out is £297 million and that is £297 million in cash which is the cash amount for the next 10 years so if anything, the *J.E.P.* needs to point out that it is not £500 million, it is not £297 million, but is less than that in real terms in financial value today. I am sure that this hospital scheme will be fully paid for in the appropriate way when it is completed but more importantly, we are going to make a decision to deliver this new hospital with no cost to the taxpayer and no debt for any future generations. In previous debates, and I have cited the Connétable of St. Mary on a number of occasions, I have been asked whether or not there would ever be a dividend for the difficult decisions for the prudence taken in previous Budget years. I think we can now say in this Budget debate that the resounding answer to that question is yes, there is a dividend, and it is our new hospital services. **[Approbation]** It is the result of the decisions of this Assembly that in recent years, we have preserved the value of the Strategic Reserve and moreover the Treasury has been able to achieve excellent and, indeed, pretty well-beating investment performances. We are now uniquely, in this Budget debate, able to fund essential development of hospital services for Islanders. I said to the Minister for Health and Social Services when she was elected I felt that she was going to be the Minister that was going to see the biggest reform and improvement in healthcare services since the Second World War and I do not think I was wrong. Our community can look forward with confidence to the investment improvements in healthcare services and I think we should thank the Deputy of Trinity for all of her work in doing all of these endeavours. **[Approbation]** Liquid waste, as the Minister for Transport and Technical Services says, is not perhaps the most exciting project, particularly after breakfast or indeed before some warming soup but it is, however, vital to every single man and woman in Jersey. Proper investment in our liquid waste system is extremely important and that is why this Budget sets out how that investment is going to be funded. We will, of course, consider the actual liquid waste strategy in the early part of next year and we are proposing, however, to set out how that proposal would be funded, targeting existing rolling capital vote which will deliver £12 million and proposing to allocate £34 million from the overall capital programme but also to invest from the Currency Fund £29 million which importantly, on this occasion, can be repaid by the expected savings in the new technology in the same way that the Minister for Housing is going to repay his borrowings. This one, of course, is done for internal purposes. This is an affordable option for Transport and Technical Services who for many years have been trying to find solutions to this funding. Again, with no external debt, new infrastructure will be delivered which is more energy efficient, cheaper to run, and better for the Island and I want to recognise the Minister for Transport and Technical Services and his staff for improving infrastructure and I hope ... I am sorry the

Constable of St. John is not here but I hope we are going to have a debate which recognises the significant and positive investment that we are making in infrastructure across the Island. All of these proposals represent a huge amount of hard work and inter-Ministerial and departmental co-operation and I am pleased to have been able to develop all of these 3 strategies that are a financial improvement at the same time as delivering better services to Islanders. I should not make a Budget speech without some remarks on savings. All Ministers are delivering on their savings and I would like to congratulate all the staff that are across the States working hard to deliver savings: £2.38 million in Social Security, £1.5 million in Education, Sport and Culture through the renegotiation of university tuition fees; E.D. (Economic Development), £530,000 through managing prices and general efficiencies; Law Officers' Department, £250,000 by the use of better external providers; Chief Minister's Department saving this year £280,000 through consolidation of data centres and central management of software licences; my own department, £660,000 through retendering insurance arrangements and savings identified through the Tax Review; and T.T.S. (Transport and Technical Services) even with their difficult infrastructure requirements delivering £145,000 as a result of the reorganisation of Parks and Gardens. I was pleased to see the Social Survey recognising how Islanders value the work of Parks and Gardens. These are savings that are important. This Budget is not just about spending, it is about saving and sticking to our savings plans and these savings will also not end here. Departments are working now hard to prepare further savings and efficiencies that we expect to make in the next M.T.F.P. period and again there is good co-operation under the leadership of the Minister for Economic Development with the Chief Minister, Ministers are working on further savings and I want to make that very clear to all Islanders. In previous Budgets, we set out the principles that were needed to ensure our economy is stable and protected: a low, broad and simple tax system, a balanced Budget, a commitment towards long-term planning. We have stayed true to these principles and they have worked and are working. They have allowed us to provide economic stimulus when it is most needed without debt. They have enabled departments to find efficiencies and make savings and they have seen us achieve one of the most stable credit ratings possible for a small jurisdiction, an endorsement of previous prudent and good planning. These principles are allowing this Assembly in this Budget debate to provide tax cuts and put money back into the pockets of Islanders. They are allowing us to provide a legacy of essential infrastructure, care for future generations, a new hospital, new housing and investments throughout our community. This Budget allows us to help people to find work, to support new sectors and to protect and grow our finance industry. This is a Budget that we can afford. This is a Budget that benefits everybody. This is a Budget that further equips us for the future, a Budget that provides significant support to the economy when it is most needed. It is the Budget that will lay the foundations for future growth and enable us to compete on the international stage for all of those business opportunities. It is a Budget that we can look forward to with confidence in the future and I commend it to the Assembly. **[Approbation]**

[10:30]

**The Deputy Bailiff:**

Is the proposition seconded? **[Seconded]**

## **1.2 Draft Budget Statement 2014 (P.122/2013): amendment (P.122/2013 Amd.)**

**The Deputy Bailiff:**

Very well, we come to the first amendment which is that of Deputy Southern in relation to paragraph (a) and I would ask the Greffier to read the amendment.

**The Deputy Greffier of the States:**

Page 2, paragraph (a) after the words "as set out in the Budget Statement" insert the words – "except that – (i) income tax exemptions for the year of assessment 2014 shall not be increased by

1.5 per cent as proposed in the draft Budget Statement; (ii) the marginal rate for the year of assessment 2014 shall not be decreased from 27 per cent to 26 per cent as proposed in the draft Budget Statement; (iii) the estimate of income from taxation during 2014 shall be decreased by £5 million by zero-rating or exempting from Goods and Services Tax foodstuffs in line with United Kingdom Value Added Tax arrangements and domestic fuel and energy with effect from 1st July 2014.”

### **1.2.1 Deputy G.P. Southern of St. Helier:**

I congratulate the Minister for Treasury and Resource on his endurance. Magnificent speech. I was just waiting for the bit of praise for me. I was a bit lonely there. **[Laughter]** I did not hear praise for keeping him on his toes during the year, perhaps, and maybe for bringing what he described as a politically astute amendment to his Budget. I will be far briefer because this is a very simple proposition. I have absolutely nothing against the principles of this particular Budget. It is doing the right thing, I believe, in delivering a tax cut to many residents on the Island, which the Minister expects to go into people’s pockets and then be spent in the local economy, thus giving a boost and helping us out of the recession. I have been arguing for that principle for some years now and the Minister attempted to deliver fiscal stimulus again last year and the F.P.P. says that he failed to do so. Perhaps last year in the Medium-Term Financial Plan, he might have listened to me when I said to put an extra £20 million into a green initiative fund so we can spend even more in the economy in 2012 and perhaps get ourselves out of the recession just a bit quicker. So nothing wrong with the principles, totally correct. However, the question is how to deliver that tax cut. The Minister has kept saying that this will affect 84 per cent of taxpayers and the fact is, it will not affect 84 per cent of taxpayers: it will affect 84 per cent of income tax payers. Whatever is written down, it is income tax payers. Why is that important? Because who does not pay income tax? Why? The very poorest in our society, they will be completely unaffected by these measures, except a little nudge of a very borderline, maybe an extra 50 people not paying tax. What is the best way to make sure that money going back into people’s pockets goes into the local economy? It is to give it to the poor because the poor spend every single penny they get and often more. They are the ones who need credit to survive. The most effective way of doing it and the most comprehensive way of doing it is not to play with income tax because the bottom 20 per cent do not pay income tax; we do not affect them at all. It is to do something with the tax we all pay, day in and day out, routinely, without even thinking about it except when we have to pay for a book, because it has the price on the back of it and that is really annoying, but never mind. That is a different issue. The tax we all pay, G.S.T. If we want to deliver more money to the economy, then let us do something about G.S.T. We can do so quite simply. Take food and domestic heating, 2 of the essentials, again which have the greatest impact at the bottom end, and remove G.S.T. on them. It is a simple move that can be done. It would require legislative change and would take some time to draft the law to do it, but it could be done. It can be done in exactly the same time scale as the moves proposed by the Minister for Treasury and Resources and it can be done with almost exactly the same benefit. It does not come in fully until 2015, but if we were to draft the laws by July 2014, it could be in place. We would get a half year, around £5 million. In 2015, we get the full £10 million, which is what the Minister for Treasury and Resource is attempting to give back into the economy. So it matches in terms of the sum, it matches in terms of the timing. Above all, it fulfils that statement that I have just heard the Minister for Treasury and Resources make, this is a Budget that benefits everyone. That is simply not true. If you want to benefit everyone, then you have to start amending the tax that we all pay, not the tax that some of us pay. The reality is that G.S.T. needs to be amended. If we are going to do that and meet that target, that budget, that benefits all. The cynical among us, of course, will say that this is a giveaway Budget in an election and well done for producing it in an election year coming up. The last Budget for the election, well done. Or saying that this is simply a way of covering up a tax rise which is on its way, which is

Long-Term Care. So in 2015, we will see the first half a per cent of Long-Term Care charges, 2016, one per cent and thereon upwards. We are increasing taxes there so, in this Budget, we are having a reduction in taxes. The other thing to say is that if we were to amend our G.S.T. provision, to take out food and heating, the likelihood is that we would not see that reimposed in the future. That would be a very big step. Whereas, if you simply go along with accommodating fiscal drag - which is what we are doing - and lower the tax levels, then it is relatively straightforward, it has been done for years in the past by various Ministers for Treasury and Resources. To reinstate that, you simply do not uprate next year or the year after that or the year after that. It is very easy for fiscal drag to then get that money back without doing anything, just by simply the absence of doing something and uprating your exemptions and your rates. So if we were to do that, it would have, I believe, a long-term impact. Now, we are told, and this is the single argument that needs to be addressed, I think, that of course, if we reduce tax, we will not see any change in prices. And yet we are told that we are the most tax compliant country in the world. We have something like 97.97 per cent compliance. We are a very honest society. We pay our tax where it is due. G.S.T. compliance: tremendous. Income tax compliance: tremendous. And yet, it is suggested that if we reduce tax, we will not see the benefit. Nobody will bring their prices down. Are you telling me that the shopkeeper out there who does not bring his price down by 5 per cent will remain competitive and in business while people do? What is a competitive world about? Of course we will. We will see that benefit. To introduce that benefit particularly on food and domestic heating, I will show you the figures in my report about how much, in particular, food prices have gone up over the last 5 years and how much over the last 3 years energy prices have gone up. These are the pinch points that really hurt ordinary working people. If we can do something there, then we make a significant change in the quality of their lives. The cost of implementing what I am suggesting is put at between £200,000 and £300,000, about 3 per cent of the total change in 2011. It is doable, it is feasible and it is the right way to make sure that this Budget encompasses everyone and that everyone benefits. I maintain the proposition.

### **The Deputy Bailiff:**

Is the amendment seconded? **[Seconded]** I call on Deputy Noel.

### **1.2.2 Deputy E.J. Noel of St. Lawrence:**

Some Members will be very familiar with this subject, as similar propositions have been debated in this Chamber on at least 9 previous occasions. The arguments for and against, zero-rating on food and domestic energy are as relevant now as they were previously. While I am also aware that G.S.T. has not been debated by this current Assembly and in particular the class of 2011, I will therefore briefly outline the background to the introduction of G.S.T. in Jersey and explain why we should maintain the principles of a broad-based, low rate system or B.B.L.R. (Broad Base - Low Rate), as we refer to it in Treasury. G.S.T. was implemented in 2008 on the basis of a modern consumption tax as adopted throughout the world in the mid-late 1990s. These systems attempt to have a broad-based tax with few zero-rating or exemptions and in doing so can adopt a relatively low rate of tax. Hence them being referred to as broad-based, low rate, B.B.L.R. At the same time, many countries introduced or enhanced targeted income support and other benefits to protect the lower income groups just as we have done in Jersey. This B.B.L.R. model was adopted after considering other options involving the full consultation exercise and a lengthy States debate. Jersey followed what is considered to be an international best practice and deliberately avoided the very complicated U.K./E.U. (European Union) type of V.A.T. (Value Added Tax) system. By doing so, we have the lowest standard rate of V.A.T. or G.S.T. in the world at 5 per cent. In fact, our standard rate is lower than most countries lower rates of V.A.T. The main reason for adopting B.B.L.R. is to keep the compliance costs to businesses at a minimum and the cost to the state administration as low as possible. We have achieved this to date and the B.B.L.R. system is still

the long-term policy goal. The exclusions proposed by Deputy Southern are based on the U.K. V.A.T. model, a model which is regarded internationally as one of the most complex systems in the world and even non-compliant in terms of E.U. directives on V.A.T. harmonisation. The difficulties of applying the U.K. rules are striking, even after 40 years of live tax experiences. The U.K. exclusions for zero-rating for food includes 4 general items and sub-categories, they being food for human consumption, animal feedstuffs, seeds of plants and live animals. However, there is no specific legal definition for food but includes drink. However, catering is excluded and a list of 7 other exceptional items including ice cream and confectionary. Exclusions of any kind under a G.S.T. or V.A.T. system will result in loss of revenue and added complexity. The range, type and number of exclusions directly impact on the complexity and results in a reduction of the tax base and consequently a reduction in the revenue in-flows. In previous debates, States Members have themselves provided interesting illustrations of food items, such as Jaffa Cakes to Pringles crisps, just to illustrate how difficult it can be under the U.K. V.A.T. to determine whether something is subject to tax or zero rated. I am sure we will hear many more examples during the course of this debate.

[10:45]

However, to assist Members further, I have circulated a list of examples, which over the years have created administrative, legal and financial difficulties for the U.K. Government and for H.M.R.C. (Her Majesty's Revenue & Customs). Two of my favourite examples are prawn crackers and the change in status of ferrets in 2009. I would particularly like to draw Members' attention to the treatment of rabbits. One wonders whether U.K. retailers have had to deal with V.A.T. refunds if Buggy, the pet rabbit, decided to eat its own bedding, as hay and straw, put up for sale as bedding is taxable but as an animal feedstuff, it is zero-rated. Further, should Buggy end up in a casserole, would a refund be claimable as a pet variety of rabbit is V.A.T. able but those for eating are not. **[Laughter]** I would also like to remind Members of recent events in the U.K., which again just illustrate how difficult it can be to even to attempt to remove some V.A.T. complexities. As part of the 2012 U.K. Budget, the Government decided to simplify the V.A.T. treatment for catering. The borderline between a hot takeaway food, which is subject to V.A.T. and cold takeaway food, which is eligible for zero-rating, has been the subject of constant review, appeal and litigation. The U.K. Budget intention was, and I quote: "To tax all hot takeaway, which is at a temperature above the ambient air temperature with the exception of bread." That is clear, is it not? After a political controversy, fuelled by the tabloid press, involving not only the Prime Minister, claiming to be a regular pasty eater and the Chancellor, who did not know what they were, the idea was rapidly shelved. However, on a more serious note, if the States approve Deputy Southern's amendment, then the complexity and the revenue impact assessment for (1) food, is very high and (2) domestic energy is medium. However, if you take them together, the impact assessment would still be high. Most Islanders would welcome the prospect of low taxes, lower prices and increased disposable income. However, with this amendment, there is no guarantee that prices will be reduced in line with the G.S.T. content. Some retailers, such as Deputy Rondel, would obviously do their best to pass on the full benefit, particularly those selling pre-packaged goods sourced from the U.K. But evidence from elsewhere in the world under similar circumstances suggests that this just will not happen. I have included in the example sheet, distributed to Members, a short paragraph which outlines the experiences of similar exercises in other V.A.T. regimes, such as France and Turkey. BBC's *Watchdog Report* ran a report on the V.A.T. rate when it was temporarily reduced in the U.K. from 17.5 per cent to 15 per cent in 2008. It found that Asda had only reduced the V.A.T. rate on certain products. Next and Matalan had reduced the prices at first only to shortly afterwards increase them back up to the previous levels prior to the reduction in V.A.T. In reality, stores simply kept the amount that they had previously paid to the Government in V.A.T. to improve their margins. McDonalds reduced some of their prices but not all of them



and in doing so, pocketed the difference as extra profit. What all this proves, beyond doubt, is at the end the consumer did not benefit. In previous States debates, serious concerns have also been raised concerning propositions in an attempt to mirror the U.K. V.A.T. legislation. If this amendment was adopted and part of Jersey's G.S.T. law would have its origins in the U.K., which is intended to be compliant with the E.U. V.A.T. Directives but in fact is not. The U.K. law is still vulnerable to change by the E.U. and therefore parts of it replicated in Jersey would also be subject to appeal and change here. This would inevitably lead to further complications, confusion and increased costs, although the upside would be that our legal firms would be kept busy. If adopted, would Deputy Southern's amendment really work and help the least well-off? It is accepted that tax changes in the Budget will not help those who do not pay taxes, but they do help the vast majority of taxpayers, i.e. the 84 per cent who do pay taxes. Those on lower incomes have already been compensated for the effects of G.S.T. on food. Now is the time to help those who pay tax and the measures proposed in the Budget target the 84 per cent of all taxpayers. Deputy Southern's amendment is silent on these compensating measures, being the issue of increased income support and the G.S.T. bonus currently being paid to the less well-off in society. Both were introduced to insulate the impact on G.S.T. on lower income groups. If this amendment is successful, then presumably these would no longer be needed to be maintained and current levels of income support and G.S.T. bonus could be withdrawn. If this does happen and the retail prices do not reduce by the tax content, then these groups will be worse off. This will be the exact opposite to the higher income groups, who will benefit most if this amendment is successful. Over 30 per cent of the potential cash benefit from the moving G.S.T. will go to the top quintile. That is the top quintile better off by some £3 million or just over 10 per cent; only roughly £1 million, would go to the lowest income quintile. Even Deputy Southern cannot claim that this is fair. The direct income tax changes contained in this Budget are serious and balanced and they attempt to provide an incentive to work, reducing the tax burden on the vast majority, the 84 per cent and thereby boosting the economy. They are targeted, they are permanent and they are guaranteed. In conclusion, I suggest that States Members support the Budget as proposed by the Minister for Treasury and Resources and reject Deputy Southern's well-meaning but misguided amendment.

**Deputy G.P. Southern:**

Sir, a point of clarification, if I may? Is the Assistant Minister saying that when he sticks to his 84 per cent of taxpayers, is he misleading the House when he means 84 per cent of income tax payers? Because he again repeated this misleading figure of 84 per cent applies to income tax payers, not taxpayers.

**The Deputy Bailiff:**

Assistant Minister, do you wish to clarify? I understood that is what you said, but ...

**Deputy E.J. Noel:**

I may have just missed out the word "income", but it is income tax payers and we all know that.

**1.2.3 Senator S.C. Ferguson:**

Yes, I am glad Deputy Southern has mentioned that, it saves me going through it as well. The Assistant Minister, sadly, has forgotten to mention the chocolate body paint in the U.K., which is also zero-rated. **[Laughter]** It comes up every time with the debate, so I thought I would get it in first. **[Laughter]** Retreating from that, we are talking about an effective tax. An effective tax should be simple, efficient, equitable and progressive. Progressive, so that resources can be redistributed to the needy and can be targeted. If you buy more, you pay more tax. There is a G.S.T. refund for people who pay no tax and there is an allowance for G.S.T. in income support. This all combines to make a tax which fits with the basic principle and in effect is progressive in the context of all taxes. Much has changed since we last debated this. In fact, Australia is now not

only looking for ways to simplify the system and reduce administration and compliance costs but is also suggesting that they should broaden the G.S.T. to cover everything; a flat rate, like the New Zealanders. They will not like to admit it, I think, that they are copying their smaller neighbours but these things happen. Singapore has no exemptions either and it has been able to ensure that those needing assistance, low income and pensioners can be targeted for benefits. As the Assistant Minister has said, it is by no means clear that reducing the G.S.T. on food would mean that savings would appear in the shops. We have inflicted too much red tape on them. Most of our businesses are small businesses - 75 per cent of them, I understand - and they have already had to spend considerable amounts of money updating their tills for G.S.T. and increases in G.S.T. and are we going to inflict another substantial expenditure on them? When G.S.T. came in, there were extra income tax allowances to compensate the less well-off and this has made changes to the distribution of the tax take. In 2008, 18 per cent of the population paid 59 per cent of income tax collected at 20 per cent. 53 per cent of the population paid 41 per cent of the tax collected at the marginal rate. In 2009, we had 15 per cent paying at the 20 per cent rate, paying 54 per cent of the tax and 55 per cent paid at marginal rate and they paid 46 per cent of the tax. So the amount of tax being collected at the marginal rate is increasing and the number in the population paying at the 20 per cent rate is falling. In other words, people at the margin are falling into a lower tax band and the number of people paying no tax has increased due to higher allowances. In other words, the measures to reduce the burden on middle Jersey and the less well-off to compensate for G.S.T. have worked. There are probably other factors but the main reasoning remains. We have a targeted benefit, the G.S.T. bonus, payable to all people who are not on income support and who do not pay any income tax. It is not very well advertised but it was brought in with Deputy Le Fondré's amendment in order to cater for those people who do not pay any tax and therefore do not benefit from the low rate of G.S.T. If we have a simple, easy to run system, there is no evasion or avoidance and instead of spending money on administration, we have the spare cash for the targeted benefits. The Assistant Minister has spoken of the complexities of the U.K. system and he has mentioned the case on whether hot food eaten off the premises is zero-rated or standard-rated. I mean, can you imagine the problems we are going to have with the small takeaways in Jersey. If you take the bacon rolls that you can obtain on the Albert Quay, if you eat them standing up, they would be zero-rated. If you sit at the tables, they will be standard-rated and if you go off and eat them in your car, are they zero-rated or standard-rated, because you are sitting down. But the original case went to the European court and it was brought by a Mr. Manfred Bog and this enabled the red top media to declaim that H.M.R.C. have effectively said: "Bog off." **[Laughter]** I am quoting the newspapers, Sir. I regret that I have not got a copy of it with me. **[Laughter]** In contrast, Singapore has also copied us with their version of the G.S.T. bonus and they have kept their G.S.T. at a low level; and Australians are looking at a flat rate on everything. But does the proposal make economic sense? What we are looking for is economic growth. Does reducing consumption taxes make that sense? According to the O.E.C.D., their research emphasises that there is a hierarchy of taxes. The top ones which encourage economic growth and the bottom ones impede economic growth. From their research, income taxes and corporate taxes impede economic growth and consumption taxes and property taxes encourage economic growth. The best summary of the rationale for the simple system has come from New Zealand and there they found that the constraints on introducing the broad-based single rate consumption tax were not as great as they had previously imagined. The studies showed that in absolute terms, higher income people would gain most from exemptions for food, clothing and other necessities.

[11:00]

This came through in surveys of household spending. If food had been exempted from G.S.T., the bottom 20 per cent of households would have received only 15 per cent of the aggregate benefit of the exemption. The other 80 per cent of households, which were not considered to be poor, would

get 85 per cent of the relief and that would not represent social equity. These spending patterns do not apply just to food. The well-off spend more money on everything and therefore they pay the most G.S.T. These were figures that the New Zealand Government obtained. I am not sure that we have these figures for our economy but I would suspect they are similar. Do we want a system which is used to give a benefit payable to everyone or do we want a system where benefits can be targeted at those who need it most? Even the E.U. is looking at simplifying V.A.T. and a flat, simple rate is being discussed. So, if we go down the road of complicating our system and relying on the U.K. for discussion on exemptions, then if they bring in the simple system for the E.U. we are going to have to change it all again. It seems extremely short of regressive to me. I think we need a simple system. Middle-Jersey has been assisted by the allowances. Our current system looks after the needy in society. Let us emulate Singapore, not the U.K.

#### **1.2.4 Deputy T.M. Pitman of St. Helier:**

I enjoyed the Senator's speech. I do not always agree with her but she has a good sense of humour. Budget speeches: I do not know how many I have sat through now; it must be 5 or 6. They all seem to blur into one. What I find disappointing is that when I listen to so many budget speeches they really sum-up one of the key things that I am not going to miss about not being in politics and that is how many people focus on making often clever and witty speeches and comments but they do that instead of really facing up to the issues at hand. I think that is the problem here. I agree with what has been said about having a simple system is generally the best. We hear this so often from the Council of Ministers and we have heard it from the Assistant Minister today. That would be great, so why do we not also have a nice and simple taxation system where even the ultra-rich could all pay the same as the rest of us instead of being allowed to pay less the more they have, as we know is the case? That would be most effective but suddenly that goes out the window. Anyway, that is an argument for another day but it did need to be flagged-up. Deputy Southern's amendments: well I think that the argument for fuel is so much what my colleague on the right often refers to as a "no-brainer" that little more needs to be said as to the argument that Deputy Southern has made. In these economic times with more and more people struggling, whatever we say about things gradually getting better, the argument is surely clear-cut. I certainly believe that and I would urge all Members to support it. All I really want to talk about is the food aspect. Obviously the Council of Ministers do not want to support Deputy Southern but why do they not want to support him? I cannot help thinking that 2 or 3 years ago - and I must admit my memory is not quite clear on that - the States agreed to pursue Deputy S. Pitman's proposition which called to vigorously investigate G.S.T. exemptions on an official list of healthy food. That was passed. Yet what happened following much badgering eventually, fairly recently, this Assembly learnt in response to one of my questions to the Minister for Health and Social Services that that research had been completed. I believe a report has even been written or certainly that was the impression given. I did ask that we ordinary Back-Bench Members could have that report to consider what was in there but nothing has happened. What are the consequences of that? Obesity continues to be a growing problem, no pun intended. More and more people continue to be forced into buying cheap, low-quality junk food, food of little value, especially to children and the elderly. A further consequence of this of course is the negative impact on our economy continues to grow because of the health consequences. Yet the Minister and his Assistant are still quite happy to bandy about the word play and the lovely list. I can imagine the happy hours the Assistant Minister spent putting together his list. There are some humorous things in there but surely it is far better to look at what are the alternatives to just saying: "Do not vote for Deputy Southern's amendment" than it is to say: "The Minister and his Assistant, they both enjoy a good bit of sausage like the rest of us but only a sausage when it is hot." We can have those arguments but it does not really get to the gist of what is important. If the Council of Ministers do not want us to support this, then why do they not - one of them, hopefully the Chief Minister - stand up today and say to us: "That piece of work that the

Minister for Health and Social Services' team has apparently undertaken and completed in response to the last States Assembly supporting Deputy S. Pitman's proposition, we are going to bring something to the States within the lifetime of this House." Because then I think probably even Deputy Southern would say: "Okay, you have got something that is genuinely going to improve life for people generally, not just the poor but especially for the poor, because they are the ones having to buy the rubbish; the cheap rubbish." So if the Chief Minister will stand up today and say: "Yes, my colleague has done that work; I am going to make it happen. This Council of Ministers is going to make it happen. Healthy food exemptions brought to this Assembly before the end of its life" then I would probably be happy to not support this. But the fact is Deputy Southern is working with what we have got. I think there is sense in everything he said about the domestic fuel and who it hits. I am glad he highlighted this 84 per cent who pay income tax because it is funny how a little word being left out can give a completely false impression. So that is my challenge to the Chief Minister. I am going to leave it there and unless I hear it I will definitely be supporting this wholeheartedly. Thank you.

### **1.2.5 Deputy M. Tadier of St. Brelade:**

Deputy Pitman stole a little bit of my thunder but not necessarily my lightning. I am going to expand on a bit of what he said. It is funny how the argument of a simple tax system gets rolled out, a very familiar debate that we are having. It is not the first time we have debated this kind of amendment. But the simple tax system is not applied to income tax where we have a zero rate of taxation, where we have a 10 per cent rate of taxation for finance companies. We have a 20 per cent rate of taxation for energy firms, *et cetera*; there is another word for it: commodities, *et cetera*. A 27 per cent marginal rate for taxpayers but that is going to go down to a 26 per cent rate if we agree today to ease the 84 per cent of income tax payers, we are told. But on top of that you have got the 20 per cent standard rate which could be anything from zero to 20 per cent depending on what your actual ... so your actual effective rate when you get your packet could be anything from zero to 20. It could be more than 20 if you have got other income which is perhaps unearned coming out of your salary. On top of that you have got what used to be the 1(1)(k) system which is 20 per cent but only up to a certain point; I think it is £625,000 and after that it becomes 1 per cent. A very complicated income tax system. The reason we have that, we are told, is because of economic necessity and fairness. That is why the marginal rate is supposed to be fairer. Yet, when it comes to bringing fairness to the table in terms of G.S.T., which clearly is not a fair tax, we are told it is a simple tax, it is not fair, it is indiscriminate; the simple argument always seems to win over. So if it is good enough for our income tax to have all these kind of carve-outs presumably for legitimate reasons - and some I would suggest they are not necessarily legitimate, but we are told for economic reasons - then it is absolutely correct to apply different rules for G.S.T., different rates, if need be, if desirable, for the aims of fairness. Also, as Deputy Southern said, to catch those who do not pay income tax necessarily but who should be able to choose whether or not where they pay G.S.T. The argument is, I was always under the impression, that a V.A.T. or G.S.T. is for luxury goods. It is strange to have a libertarian like Senator Ferguson advocating people becoming more dependent on the States. She said quite rightly that the G.S.T. bonus, as we call it informally, you have to go to Social Security, you have to seek it out and not everybody knows about it. Not everybody claims it. Therefore, we are making people dependent when we should be saying: "No, it is absolutely quite right that we do not tax the basics that you need to survive on. That is your food and that is your energy bills because you should be able to survive yourself without the unnecessary dependency on the State. You should not have to submit yourself to a rigorous and, for some, a demeaning exercise of having to ask for handouts when you should not have necessarily given that money over in the first place" you could argue. That is certainly what I would be arguing. We get these lists trotted out. We hear about body paint which almost made me lose my appetite for this debate. We hear the usual mirthful comments from the likes of the Assistant

Minister saying: “Oh, but when is a prawn cracker not a cracker; or a bacon roll is hot or cold?” Complete spurious nonsense because we do not have to apply the same criteria of this kind of mess that has come out. We are a sovereign jurisdiction, I understood, more or less in terms of the parliament. We can write our own laws and if we want to write a very complex set we can do that, but I do not see there would be any benefit to it. The argument about G.S.T. not coming off food again is incorrect. The Co-op have told us in the past that they would definitely take the G.S.T. off their food. We know that this would be the case because when you go and buy your chicken fillets or your pre-packaged goods in the likes of the Co-op it is £5, is it not? But, no, when you get to the till it is £5.25 and the reason for that is your 5 per cent G.S.T. That would simply come off. There is no question about that not coming off. The smaller shops also have an economic imperative to remove the G.S.T. because they have to remain competitive. If they do not remove the G.S.T. and they just pocket it, unless there is some kind of cartel operating in the Island which Ministers have not told us, I think it would be very disrespectful to suggest that shops are operating in a cartel fashion and they would all decide at the same time to keep their G.S.T. There is an economic imperative that they do reduce those costs because ultimately they need to remain competitive with the other shops in the area. I think there were some very good reasons for adopting this. It has been shown that the argument of simplicity simply goes out the window when compared to other areas of taxation but fundamentally we have to ask ourselves the question: is it right that we tax the very basics of life? I will leave it there with, Members, do not be seduced, I would suggest, by the arguments, the spurious arguments, that we have heard from the likes of the Assistant Minister. Ultimately, the question is: should we be forcing people into dependency even though some people get this rebate? Everybody pays G.S.T. and this would be a way of helping everybody in our society.

#### **1.2.6 Deputy S.G. Luce of St. Martin:**

I would wish to make 2 points at the outset of these amendments. First, I think what we have in front of us today is a reasonably well thought-out and carefully-targeted budget. Secondly, that I cannot under any circumstances support the removal of G.S.T. from selected items regardless how laudable the reason for their removal from the G.S.T. list is. I will deal with the G.S.T. first. I would wish to make it very clear that I would not necessarily be against a reduction in the overall rate of G.S.T. being proposed. But reducing the overall rate is very, very different from modifying the system to make it more complicated, vastly more difficult to administer and, most importantly, more expensive for everyone to operate. I would urge Members not to be persuaded by the various amendments, to tinker with our current G.S.T. system, because in my view, exempting any additional items is never the best way to achieve targets.

[11:15]

There are better, easier, less expensive ways and that involve specific targeting and not sweeping generalisations. That brings me to my second point. Like some other Members of this Assembly, I have over the last few weeks attended a number of presentations by the Minister for Treasury and Resources. I am persuaded that in this Budget the Treasury team have set out their stall, a stall which in the coming years will be heading very clearly towards a simpler system of income and expenditure, a system targeting benefits in whatever form to the places and the people that need them most. A system that will become easier to understand and simpler to use. In this first amendment today we see that Deputy Southern proposes to, in all 3 parts, move in a completely opposite direction to the Treasury. First, no exemptions increase, so adding some more of the less well-off people to the list of those paying tax. Secondly, no cut to the marginal rate of tax by 1 per cent, so no help to those who are the majority of the Island’s taxpayers. Those who are out there, the heart of our local economy, those who are backbone of our tax system. Do not give a little bit back to those who are in work, working hard in these difficult economic times. Finally, Deputy

Southern proposes to take G.S.T. off food and I am sure he will not be the only one supporting this part of his amendment. It is strange, in some sort of peculiar role reversal you might have expected the Minister for Treasury and Resources to be proposing taxing the less well-off by freezing exemptions and giving a 5 per cent tax break on food, fuel and energy to the very wealthy. But it is the other way around here. I cannot - just cannot - agree to allow a G.S.T. cut on anything for those that can afford to pay and there still are plenty of people that can afford to pay. We need to once and for all decide that G.S.T. is a simple tax to administer and keep it that way. We have in the past, and will continue to have in the future, schemes set up in order to offset this tax for those who are struggling financially. If more help is needed then we must provide that but not by modifying the G.S.T. system, a modification that would cause huge confusion and expense for all of us, a system that is not broken and does not need fixing. In my view the Treasury have been working hard to identify the best ways to target assistance to those who need it most. They have been thinking carefully about the future and they have delivered a reasonably balanced and well-targeted Budget for us today.

### **1.2.7 Deputy J.A.N. Le Fondré of St. Lawrence:**

There are times, of course, when Deputy Southern and myself agree. It is often quite a worrying experience for both of us given the difference in our political thinking. But it will come as no surprise to Deputy Southern that today is not one of those times. There is absolutely no way I will be supporting this particular amendment. I am glad to follow the Deputy of St. Martin briefly in his comments, particularly in relation to an overall reduction in the rate of G.S.T. because I thought about bringing an amendment to that effect in this Budget. The reason I did not do it was for 2 reasons: one, is I did not think it had any hope of going anywhere through this Assembly and my perception was there was not a great appetite for it outside in certain quarters. The second one is that I remain concerned in the medium term of where we are in terms of revenue and what we are raising. But more of that later. When we introduced G.S.T. we made a commitment to the public to try to keep things simple and, as has been said already and which I am going to expand upon again, exempting food is about as far as one can get from keeping to that commitment. It is a complete and utter nightmare. At the moment we have a relatively simple system, we have relatively few exemptions and what we have gone for is for using existing systems to target assistance where it is needed. If I may take a period of self-indulgence, I will refer to the so-called Le Fondré proposals, as has been said already, which were adopted in 2008. It was a bit embarrassing because that is what they were referred to as for a while afterwards. They have endured thus far. The point was, by using the existing systems of income tax allowances under exemptions, income support and most importantly the G.S.T. bonus system we have managed to make people on the lower end of income scales better off than they would be by a single exemption of food from G.S.T. That was the point; they were better off. In so doing we have avoided the quite significant bureaucratic costs associated with ensuring compliance with the complicated system and, as we have seen and will also see again, the somewhat daft rules associated with the U.K. V.A.T. system which is widely regarded as old-fashioned and archaic. That is the expression used by professionals. What I would like to just address are 2 comments that have been made. Deputy Tadier made some comment about we are our own jurisdiction, which is correct and is relevant to this debate, however he seems to have ignored the actual proposition. The proposition or the amendment, part 3, basically says: "In line with U.K. Value Added Tax arrangements." So it does not matter which way you want to cut it, we are being advised to follow this table, and this table is an extract of the 22 pages that the U.K. Inland Revenue have on their system for all the varying rules about exempting food. I think the other comment to make is about simplicity. Simplicity is relative. If one looks at the U.K. tax system, I do not think anybody in their right minds would call that simple. So obviously our system is significantly more simple than the U.K. system. But probably any tax system is not necessarily going to be perceived to be simple by

people who do not operate within it day to day and have the experience of looking at other systems elsewhere. So its simplicity is relative. The point about the whole V.A.T. system as we have heard previously is where court cases have been pursued over many years as to whether a Jaffa Cake is a cake or a biscuit or whether Pringles are or are not crisps. For those Members who are new to this debate, and there are a number of them in this Assembly, I kid you not. The ones who are not new to this debate will be delighted to know that shortly I shall be introducing my normal props, which will be available for consumption later. We have heard anything to do with catering or takeaway food becomes even more tricky with businesses having to determine, for example, whether food is being sold for takeaway or for eating on the premises. For example, if it is a van or a wagon there is a difference in treatment; whether the food is sold hot, cold, is capable of being heated and sometimes even when the customer is going to be eating it standing up or sitting down. That is, for example, at the counter at the wagon or at a table in the open air. Think about that at Bonne Nuit when you go and buy your bacon buttie. All of that raises the issue of compliance. If the system is relatively simple there is a smaller likelihood of making mistakes, the more complicated the system the more likely mistakes will arise, sometimes the longer it will take for the returns to be completed. Therefore, our very high level compliance with the tax will diminish. Exempting food just completely destroys the principle of having a simple system. In one briefing in the past, definitely before this particular Assembly was in being, we had the words of the Oxera economist who described the sheer administrative impact of exempting food as a dead weight on the Jersey economy. That is one of the key points. It is not just about the cost to the States of Jersey or to the Tax Department, it is about the sheer regulatory impact upon all the Jersey businesses, which in turn will increase their costs. It is likely that those costs will probably be passed on to the price of food anyway. I would also note that same economist categorically stated there was a huge difference in the reported regressivity depending whether something is measured as a proportion of gross income or disposal income. Members need to remember that, because sometimes an argument gets rolled out about how aggressive this tax is. You cannot look at things in isolation. You have to look at what the measures are in place to compensate people at the lower end of the income scales. It is not just about taxing food or what we would consider to be a food; the U.K. rules capture certain elements of pet food, they impact upon chemists because they sell food. There is an impact upon garden centres, because they will have to distinguish between tomato seeds and the seeds for growing geraniums. There is a different rule whether it is a bumble bee or a honey bee. Do not underestimate the impact that will have on businesses in the Island. What about the poor stressed gingerbread man? If you have got 2 chocolate eyes and you are a gingerbread man, you are home free and you are zero-rated. Give him a smile or possibly a frown - because he is a bit concerned about this - he gets standard-rated. It is all to do with the proportion of chocolate. That is pretty good if you are a local bakery trying to produce that sort of product. There are so many reports of V.A.T. cases involving food in the financial press. Sometimes the argument is rolled out: "That is fine, we will just follow U.K. law." First, we are a separate jurisdiction so it is not guaranteed that if somebody produces some product, let us say it is the Jersey Wonder or some variation thereon, or someone decides, which probably would be complete heresy, to cover it in chocolate, someone somewhere will have to make a ruling as to which way it is going to be treated. I am picking that as a product that probably does not exist in the U.K., therefore you are going to automatically start moving away tangentially from this wonderful system in the U.K. which keeps changing and keeps getting appealed through every court in the land. I am not going to bother about the difference of ambient temperatures and hot food and cold food or whether it is capable of being warmed up or is just there because it is at the end of the baking process - so it is a croissant say - is marginally warm in the bakery when you buy it but of course can be sold cold. For Members in the coffee room outside, one of the examples that has been given in the past is a cup of tea and a biscuit because a separate slightly more complicated calculation is required. I am being very true to what I stood upon back in, worryingly enough, the end of 2005 when this was all first

being introduced. When I went knocking on the doors in the Parish of St. Lawrence at that time, and subsequently, some people said: "We are a bit nervous, why should food not be exempted?" When you went through it and explained the issues they were 90 per cent - I will not say all - mostly fully behind keeping it simple. So I can certainly argue that I have discussed it with hundreds of parishioners and to date they have accepted the argument for a simple system and for not exempting food, particularly when we have the compensation measures that we have in place to allow people at the lower end of the income scale to benefit from the measures we have in place. I cannot remember how many G.S.T. food debates we have had, but a lot would be the answer. But it does give me an excuse to go to the shops and indulge in some calorie acquisition therapy, all in the name of politics, and then be able to justify that shopping list to my wife. In other words, we do have some props around, coming up shortly. I decided not to bring anything frozen in because it would make a mess, but remember frozen yoghurt is taxed but it depends, for example, whether it is frozen yoghurt you eat like ice cream or yoghurt which has been frozen for preservation reasons and then defrosted before being consumed because they are treated differently. I do quite like marshmallows and these are obviously healthy because they are fat free, so please remember that when you are eating them shortly with your cup of coffee. Not yet, Deputy Higgins, because it will make too much noise. That is logical; they are confectionary, so it is subject to V.A.T. But, as we know, if we go to these, which are called chocolate teacakes, which are marshmallows with a biscuit base covered in chocolate they are exempt. One of the other ones I used to go for was shortbread. I was looking through a particular shop last night, desperately looking for some shortbread as my prop and I could not find any. I was looking for Scottish shortbread, which is the one you would normally go for, but I came across some Jersey butter shortbread biscuits from the Jersey Dairy. I thought I had tripped myself up because these have got chocolate chips in them. But, anyway, these are, we believe, exempt because chocolate chip biscuits, where the chips are either included in the dough or pressed into the surface before baking are zero-rated. Now, think about the gingerbread man, because he has got his 2 eyes but if you give him a smile he is caught by it, but these that have probably got more chocolate in them are not subject to V.A.T. So, again, I feel sorry for the gingerbread man because he is torn in so many different directions. So what do we have? We have got chocolate chip biscuits are not taxed, ordinary shortbread is also not taxed but chocolate covered ones are taxed so that is kind of a logic there, but if you get a bakery to take that shortbread, whack on some caramel, cover it in chocolate to produce something I am particularly partial to occasionally, which is something called a caramel slice or sometimes a millionaire's slice, well that is zero-rated. So we are particularly logical there. So if you are feeling hungry those will be on the plates shortly. Now, having spent the time making Members hungry, why? It might focus people's minds on where we are trying to go for the rest of the day. Surely the large supermarkets can cope with all this, so what is the problem? Well, that could be case. What about all the other businesses?

[11:30]

As we have said, it is chemists, it is garden centres. What about the larger farm shops, for example, that might import products from France or even Poland and need to identify the V.A.T. codes. So that garden centres, chemists, the local garage that will sell food that has been warmed up. We are not going to be helping small or medium-sized businesses by introducing an archaic and burdensome system when we are still in an economic downturn and, as previously stated, the people on lower incomes are better off under the existing systems. The introduction of V.A.T. rules would capture all sorts of businesses, hotels, not just the restaurants. There used to be, and I believe there still are, some local hotels which bake their own products and used to sell them outside of that hotel. They are going to have to go through every product line and consider whether each item is taxable or excluded. Again, bearing in mind that a chocolate cake is excluded but a chocolate biscuit is taxable. Not long ago we had Halloween. I can recall a media story to do with



Canada where there was some difficulties involving pumpkins. This is relevant because somewhere in these rules there is a thing about ornamental vegetables. There is a difference in treatment between whether a vegetable is ornamental or not. If one is going to eat it it is not taxed. If it is used for decoration, it is taxed. So funnily enough in Canada there were lots of people buying pumpkins around 31st October and of course they were all going to make pumpkin soup, they were never even considering using them to make a decorative lantern. Guess what? There is even a form to reclaim the tax on that. There are issues around livestock. A live horse is standard-rated because it is not normally a recognised food species in the U.K., or at least it was not until earlier this year and the surrounding Tesco issues about burgers and things. But exotic meat, which can include horse meat is zero-rated. Obviously, as we have heard, in terms of the farming community, which is relevant, straw for food is zero-rated but straw for bedding is taxable, and obviously we have heard about poor old Bugsy. Sandwiches, if I want a sandwich and I buy it in a shop as a general grocery item, it is zero-rated, if I eat a sandwich as part of a buffet, it is standard-rated. If someone provides me with a packed meal as part of a function or maybe some inclusive deal if I am staying at a hotel, such as a picnic lunch, that is subject to V.A.T. But if the hotel provides a picnic lunch as a separate chargeable service, that is probably not the subject of V.A.T. So I really do hope Members understand why, although emotionally appealing, the idea of exempting food is not a logical idea in this jurisdiction. Not only will it be burdensome on many local businesses which continue to struggle, it will not target those who most need our assistance and who are demonstrably better off under the existing systems we have in place. Provided those systems remain in place, and they remain open to everybody, I think we have a good Jersey solution to solving a problem in a small jurisdiction. In short, this accountant had listened to the economist who said: "Do not exempt food if you want a simple system." That economist stated that the related administration suffered by the entire economy would be just a dead weight. It would benefit the rich more than the poor and it would achieve nothing. This accountant has listened to the professionals who have put systems in all over the world - and I spent 5 years in Treasury - and a lot of discussion was had with the G.S.T. teams of the day reiterating those points. Their experience was: "Keep it simple." We are simply not prepared for the difficulties that these proposals would unleash. Exempting food is not a panacea, it is not something to do lightly, it is not something we should be supporting and I hope Members will join me in not voting this amendment.

#### **1.2.8 Senator P.F.C. Ozouf:**

I have just had a message from the Connétable of St. John to say that there is a better behaved child in the balcony than the Minister for Treasury and Resources is. **[Laughter]** I am very pleased to be able to make a few remarks when my niece is up in the gallery because I am sure she is displaying fortitude in sitting through a States debate on G.S.T. food exemptions. Perhaps there is something for that to come. **[Approbation]** Seriously I do want to say that I do understand that a number of Members have got predetermined election statements about the issue of G.S.T. I know that we can have a humorous debate about issues of body paint, chocolate body paint examples. It is not said with any degree of non-respect to Members and it is not said with any degree of lack of seriousness. There is a really serious issue about the complications of G.S.T. Other places look to Jersey. One of the most persuasive and interesting discussions I had when attending the party conferences was with the High Commissioner of New Zealand who was a much respected Minister for Treasury for a period of time and other Ministerial offices and I explained what we had done in Jersey about introducing a system of G.S.T. without complications and he said: "You have done absolutely the right thing." I say also to Deputy Pitman, on this understandable issue of healthy foods, there are a number of jurisdictions that have looked at the issue of healthy foods, New Zealand is one, Denmark, I think, is another. I got a juice this morning from a great little Jersey juice bar on New Street this morning and I did think about it. I enjoyed my organic juice and I did

think about the nightmare of what is healthy or not. Is my strawberry juice with premium orange juice? Is that an essential versus the carrot and beetroot and spinach juice that I have, that the Minister for Economic Development sometimes buys for me? It would be a nightmare. I am not going to attempt to humourise the debate but there are real issues about simply replicating issues in Jersey from U.K. legislation and other places. Deputy Tadier says that we have got a complicated tax system. He is widely travelled, he is a linguist: is he saying that our tax system is complicated compared to other places? It is one of the most simple systems around and we are constantly trying to simplify it and we want to keep that simplification. Introducing complexities: they make for amusing debates but they would cost money. I fervently believe that we are better not to spend that money. But even if Members have got a lingering doubt as to the issue of food exemptions and whether or not they want to continue with the moral argument of that, I understand and I respect that. If Members had the opportunity let us step back and let us think about if we had £8 million or £10 million or whatever the cost is, what would we do with it? Would we target it or would we spread it across all incomes? Would we guarantee it in terms of guaranteeing that into wage packets? Would we make it permanent? I think that all of the arguments that we have put forward are. I think we have got a persuasive argument. I think we have got a compelling argument to target this relief. I think it helps Deputy Southern in saying it is not targeted. I know that we have got to work hard and even work harder than before on explaining what the marginal relief system is. But it is targeted and it is guaranteed. I am so pleased; in fact it is one of the best things that I think the Treasury has come forward with in terms of the marginal rate cut. It was something that we were talking about back in 1999 when Senator Kinnard looked at the overall tax system with a number of other States Members and they had the aspiration then to cut that marginal rate. We, of course, could not do it in recent years because of all the difficulties that we had in dealing with the deficit and the introduction of zero-rate. I think it is such a powerful message to say that we are cutting the marginal rate of tax. If I am absolutely candid with Members I would like to see that marginal rate come down yet another per cent, just to 25 per cent. I think having a nice simple system of a marginal rate tax of 25 per cent and a 20 per cent rate on our individual form of taxation would be absolutely a clear and compelling target system of taxes. I do not want this debate to be divisive but Members have said that we are not doing enough for, effectively, people who are out of work and who are not earners in the work sense. I think that in previous years we have done a great deal and rightly so. We have put money into income support. We have invested millions and we have protected all of those people from the costs of food G.S.T. No, we are not cutting the taxes for higher earners. We are targeting it to middle and lower earners. That is the so-called middle-Jersey that so many people care about. I repeat again, if we had £8 million to give away, how would you give it? Every day of the week and every minute of this Budget debate I would use it to cut the marginal rate of tax, helping lower and middle-income earners and guaranteeing in that and making it permanent. Yes, I have said that this is a clever Budget amendment, absolutely and as much as I respect Deputy Southern and it is probably a good thing to have this debate. But I think the marginal rate of tax cut wins on every single score of our economic and financial policy. It is progressive, it is targeted and I believe it is the right thing to do.

### **1.2.9 Connétable L. Norman of St. Clement:**

Following Deputy Le Fondré's speech there is absolutely no doubt in my mind that he is now the frontrunner for the 2013 Wimberley award. **[Laughter]** But what he did prove beyond any doubt is something that most of us already knew, that the U.K. V.A.T. system is the worst, the most complex and the most expensive to administer almost anywhere in the world, but we already knew that or most of us did anyway. The problem, as I see it, with this proposition - and I cannot see any other way - is this is going to benefit exclusively the better-off and the poorer in our community are very likely to be worse off. I say this because, as one of the other Members have intimated, the

better-off do spend more on food than the poorer members of our community. Therefore, the more you spend on food the more you save in G.S.T. if there is no G.S.T. on food. That is, of course, if the retailers do reduce their prices. We must recall when we introduced V.A.T. we incorporated in the income support system an element for G.S.T., so that those on income support are already shielded from G.S.T. on food. For those between the income support levels and income tax thresholds we introduced the G.S.T. bonus. Those bonuses, those reliefs, were absolutely targeted to those people who needed that help. If we remove the G.S.T. from food obviously those benefits have to go. How will those people in receipt of those benefits of income support and the G.S.T. bonus be better off, especially if the retailers do not fully reduce their prices? I was touched by Deputy Tadier's faith in the benevolence of local retailers but I think that faith is more a victory for hope over reality and expectation. Yes, of course, those pre-priced products will come down but why should anything else? We already have the evidence of other places in the United Kingdom and France and other places in Europe, if you reduce G.S.T. or V.A.T. prices, do not come down, certainly by the full amount. What we seem to be doing here or what Deputy Southern is attempting to do is to put more money in the pockets of the better-off and the retailers and taking money away from the poorer members of our community and that, I am afraid, I cannot support.

#### **1.2.10 Deputy J.H. Young of St. Brelade:**

I am going to take a slightly different tack, if I may, on this amendment. What we have here is a proposition that addresses both a fiscal measure on direct taxation and a compensating change on indirect taxation. I think, therefore, they are principles of tax that we need to speak about when deciding which way to go. As far as indirect tax, starting with that, I do not believe that we can continue in the long term future to shut our minds to using G.S.T. in the future for policy purposes. I think it is a very substantial income item, it is about £82 million on our Budget and all other countries do it. They use selective rates to try and back up and support social policy issues and in principle I do not think we should be any different.

[11:45]

I do not sign up to that never in a million years are we going to touch exemptions on G.S.T. at all. The tax has major economic effects. It affects people's lives directly and immediately. Of course, you will notice as well later on, on today's agenda I, myself, have proposed some changes to indirect tax or new procedures or new measures in indirect tax for the purposes of energy management and energy conservation, the Island that I believe is an important aspect. But looking just for a moment about what we have here on the marginal taxation rates, we are told 40,000 marginal taxpayers, the majority, of course, will benefit, absolutely true. But, of course, looking at the figures and they are in the Scrutiny Report, there are 14,000 people exempt for tax, there are 7,000 people who are not required to complete tax returns, so that is 21,000 and there is another 7,500 who are standard-rate taxpayers. That, in the quality of my mathematics, says 28,500 people would not benefit from the marginal tax relief and 40,000 would. I think that leads me to the question of the principle of the taxation system. The Minister for Treasury and Resources, in all of his comments, has spoken very eloquently and brilliantly as our Minister for Treasury and Resources does, passionately and convincingly that we need a simple tax system, uncomplicated and so on. But, of course, I do not hear ever in anything that he has spoken the use of the word "equity". I was delighted when I read his own reports accompanying today's debate about independent taxation on page 1. He says: "It is widely accepted principle that our tax system should be both efficient and equitable." I think that is in the Minister for Treasury and Resources' own words in his own report. Of course, we are working with a system on direct tax that is far from perfect, what is called a 2-tier tax system, and we split taxpayers into marginal taxpayers and standard taxpayers and, of course, ignoring the people who are the exempt groups but those who pay taxes put into those groups. I think the way we have developed the use of that tax has created

very substantial distortions. Those distortions have happened because of the way we have made decisions, i.e. successive administrations have made decisions on the allowances that we allow against taxpayers. When I looked at this and thought, okay, looking at the equity issue, what groups are going to fall within the tax benefit being proposed by the Minister for Treasury and Resources' Budget that the amendment seeks to remove? Of course, his own report, again, admits that there are what is described as "winners and losers" in the tax system and that appears in the Minister for Treasury and Resources' own report on page 11. I accept the fact that at the moment we are not in a position to make radical change but I am very pleased to see the commitment to work towards improving that system in the future. Of course, I think they are not alone in that because the Fiscal Policy Panel said in their report, commenting on the Budget in relation to the reduction in marginal tax: "This will mostly benefit people at the top end of the marginal tax scale and at the margin of standard tax." What they were saying is that those are the people that are on that scale who will benefit. The Minister for Treasury and Resources speaks impressively, really impressively and I congratulate him on his eloquence. He always says: "This is about lower and middle people, middle-Jersey". I would ask him to look at his own report or maybe he concedes that in fact in page 15 of his policy report he says here: "The marginal tax band is often associated with lower earnings and '20 Means 20' with high earners. In reality, because of the way the allowances and reliefs are given within the tax system, this is not always the case." It would be nice if we had a system that perfectly targeted those but I think we have to recognise it is not as perfect as that. We are dealing, I think, with a fairly, what I might describe, as a bit of a rough justice tax system, and I certainly want to see it improved, particularly as we go towards independent taxation. So I ask myself what sort of income levels are going to get this benefit, and of course I have circulated some documents, and I am sure you will not have had a chance to look at them then. Just a few examples. Examples which the Treasury and the Income Tax team kindly did for me. I am very grateful. I would like to record the help they have given me in doing my research. I really appreciate that. The graph I am going to refer to is on page 2 of the graphs of the hand-out I have given and it is the top one, which is marked as example 1. You have there 2 lines. The line at the bottom is the marginal tax line and the dotted line at the top is the standard tax paying line. The graph shows the scale of annual income on the bottom, and on the left is the effective rate of tax payable. Of course you see those 2 lines join, and where they join is the point at which people stop paying marginal tax and move on to income tax. You will see in that example, if you can just read it, £190,000 a year earnings. Yes, middle-Jersey but not lower. This is not universal. Our tax system with allowances such as I have listed, the exemptions in that particular case are shown. That is a married couple with 2 children, one at university, both working, and a mortgage. Not a big mortgage. The way we handle those allowances treats that as a marginal taxpayer up to level, which means they pay a lower effective rate of tax in 20 per cent, compared with other circumstances when people pay a higher effective rate of tax, even though they are earning a lot less. I also put, when I accept that this is an extreme case... on page 1, I modelled-up a slightly theoretical case. This is where you have a family, both working, with one child at university and then another child at private nursery, possibly a multi-generation family, with a mortgage. There you will see that the marginal tax, and it is theoretical, the cut-off point is £255,000. I am pleased to say that although the rules apply to that, when I have asked for the figures on how this works in practise, which is in the back page, on page 7, I can see that nobody falls within that band, in practise, so therefore my illustration is a theoretical one. Of course one last example, the last one on that page 1, graph 4, a pensionable couple: this is a retired couple with children grown up having paid for their mortgage - they are both on either State pension or occupational pension - the cut-off point is £130,000 when they start paying standard rate tax. My point in giving you those details, and I apologise having to take up the time, is that we are dealing with an imperfect system. It is not just at the top end of the earnings, as the Fiscal Policy Panel told us that there would be a gap, also at the bottom end. If you look at those same graphs at the bottom

end you will see the bottom left of each of the graphs you have a thing called exemption threshold. That is the figure at which people do not get into the tax system at all. In these examples, I will not go into detail, we have £50,000, £65,000 and £30,000 depending on the circumstances. So of course those people that earn below those figures will not benefit from the marginal cut. The reason why I have said that is to say this is not just a debate about: "This is middle-Jersey against everybody else." This is an imperfect system we are working with. It is a system we have to improve in my view for the future because the way we structure tax has massive economic effect. It is something we have to, I think, really fine-tune. That is why I was delighted to see - and I am not being critical here - the commitments that the Minister for Treasury and Resources has made in his tax reports for the future where he says: "The system is in need of reform" and he is committed there to moving towards a single system over time. On page 20 of that report, he says: "Consideration should be given to decreasing and eventually removing the 27 per cent marginal tax rate and removing the 2-tiered tax system." Hooray, I say. Then of course on page 32 he gives a commitment that we should be looking at in the long future universal allowances and exceptions, which of course moves us much towards the issue of equity. That is the background of which I am going to judge a decision on this proposition. I apologise for going at length on that but I needed to explain why I am not going to support the amendment. The reason is because a move in reduction in marginal rates ... one reason is that it would certainly be a move towards the single tax system. So if we fossilise the current system in place that will be a problem. I accept that that is a more technical argument but I also think that the issue of food exemptions basically are going to be too wide because they are going to benefit the taxpayers in the higher income bands; they are indiscriminate. I do see the Minister for Treasury and Resources' case about having a target benefit, even though the system he has chosen to target has got major flaws in it. I think that is my rationale. I accept it is fairly abstract but I think it is based in logic. If it had been that Deputy Southern's proposition on its own was to produce a simple method of exempting food from G.S.T. I would have gone with it. If. But we have not got that. We are asked to make this trade-off between the marginal tax cut, which has got benefits for some people, and with all the defects that I have outlined, and the benefits potentially that could flow from exemption of G.S.T. on food. I have been impressed myself with ... I was not aware in this House until coming today that there was this thing called a G.S.T. bonus. Obviously it predates my time. I was not aware that we had made increases on that. Maybe I should have done. But of course if there are measures in place to compensate that I would say full marks. I hope the Minister for Social Security will carry on giving that attention to make sure that those groups are targeted through the benefit system rather than the tax system. So with that, that is my reason for not being able to support the amendment.

#### **1.2.11 Deputy A.E. Pryke of Trinity:**

I just wish to respond to Deputy Trevor Pitman's question regarding the healthy food list and I know we debated it in this Assembly about 18 months ago, but I remember at the time saying it was not an easy list to compile, and that has proved to be correct. The principles are similar to Deputy Le Fondré's little packages of fruit, sweeties and his gingerbread man. In direct answer to his question; a proposal will be coming to a Ministerial meeting before Christmas but I like to give you all a health warning that it is not practical to identify a healthy foods list other than simply defining fruit and vegetables as healthy. But even if you were on a diet of just fruit and vegetables, that would not be healthy.

[12:00]

The M.O.H. (Medical Officer for Health) has done a lot of research around the world and we have to go back to the basics of what we are trying to do here. To answer the direct question: it is coming and when it is been to my Ministerial meeting I am happy to share it with the Deputy.

#### **1.2.12 Deputy M.R. Higgins:**

I have been opposed to G.S.T. on food and fuel since before I entered this House over 5 years ago. I am still opposed to it today. I believe that G.S.T. is a regressive tax, especially in Jersey where we do not have a progressive tax system overall. It is a tax which penalises those on lower and medium incomes because they spend a higher proportion of their incomes after putting a roof over their heads on food and fuel. I am aware of an increasing number of people who in this Island are relying on charity and free food supplied by a number of organisations such as the church at St. Thomas'. I would like to see a day in Jersey where people are not relying on charity to eat. I find it scandalous we spend a fortune on overseas aid but there are many of our own people who are not able to feed their children. To give you another example: First Tower has a youth club called the Hangout, and I know from being on the First Tower Community Association the reports that we get, that more children are eating in the youth club and getting a hot meal, the only hot meal they get during the day and probably the only substantial meal they get during the day. Again, I think that is scandalous that we have come to this. I think the reliance of charity in Jersey to eat is scandalous and, bearing in mind, our supposed wealth in this Island, we keep on talking about the high per capita income of Islanders. We have a divided island. We have an island that is essentially haves and have nots, and whether you like it or not, there are an awful lot of people suffering in this Island. Anything that we can do to deal with reducing the cost of food and heating for them, especially if the weather does turn, I think we should be supporting. I also happen to think that what the Minister for Treasury and Resources is putting forward is illusory. Senator Ferguson, despite her ... I know she has a long-held objection to not having G.S.T. on food and fuel but the point is her own Corporate Services Scrutiny Panel has pointed out that the Minister for Treasury and Resources is proposing, yes, it will come off but what is going to come on? We are going to get a 1 per cent increase, half a percent in January of whatever it was the Minister for Treasury and Resources was saying. Then going up to another 1 per cent and we are going to get increasing rates being placed on Social Security. What is Social Security but a tax in another name. In other words, we can talk about marginal rates of tax and everything else, but unless you look at social security and income tax together they are taxes. The point is, what he is giving us on the one hand today, and which looks very good, and I will say it, in an election year, will not look so good after the election. I hope that if Members would agree to Deputy Southern's proposal that any reduction in G.S.T. on food and fuel would not be reversed unlike, for example, the proposed changes in marginal rate tax. Yes, marginal rate tax has gone. We have already heard from Deputy Southern about fiscal drag; with inflation basically they will claw it back. The point is that with G.S.T. it will be very hard once it has come off food and fuel for it to go back on, and I think it is absolutely essential that we do that and prevent future governments of this Island trying to increase G.S.T. going forward, because I am quite convinced no matter what is said, because I remember the 2008 election very well and Ministers going round saying: "We will not increase G.S.T." It was 3 per cent then, and it went up to 5 per cent. I remember some of those same Ministers saying we do not agree with G.S.T. on food and fuel. What do they do afterwards? Immediately reverse their positions. It was one of the most cynical things I have ever seen, and I have never forgiven them for it. I do hope that you will support this because the people of this Island, as we have seen in recent opinion polls, say that 70 per cent of the population do not trust this States, and after what happened in 2008 and all the promises that were made then, I happen to agree with them. What I do hope though is that instead of not turning out and voting in October 2008 they do turn out and vote and they remind Members of their promises beforehand and their actions during the time they have been in this body. I would also like to say to Members: why was G.S.T. introduced in the first place? It was introduced because it was needed to fill a hole in the public finances because of the move to Zero/Ten. And Zero/Ten, to remind everybody, means that some companies are paying 10 per cent corporation tax, business taxes, or 20 per cent of the utilities, but the vast majority of companies are paying no taxes at all. We also know that many of the enterprises that we have in this Island are owned by foreign corporations who pay no tax to this Island whatsoever. So G.S.T.

was introduced to fill that gap because of a policy change. We have been promised repeatedly in this House by the Minister for Treasury and Resources and others they are going to come back with proposals to make these companies pay something and contribute something to this Island. There are no proposals and there is no progress on this whatsoever. So my view is that we are now paying - in fact it is not just my view, it is the figures - are suggesting that 80 per cent of all tax is now being paid by individuals in this Island and 20 per cent by companies. It is time that we did something for the ordinary person in this Island, the ordinary individual who is paying those taxes, and I believe that we should be supporting Deputy Southern and removing G.S.T. on food and fuel. I also happen to believe in an equitable tax system and a fair society. At the present time our tax system is not equitable or our society fair. We have an Island that is riddled with inequalities and unfairness. As I have said already, that we have an Island of haves and have nots. What is at stake here is not just simply about whether Jaffa cakes should be taxed or not. To my mind this is a red herring. What we want to do is to help members of our society who have been hurting in the past and are hurting now, and I personally believe will be hurting over the next 2 years. I believe that we can find acceptable solutions to categorising food goods and I do believe that it is just being used to muddy the water against the equity argument. I shall be supporting Deputy Southern and I shall show my consistency by supporting this proposal to remove G.S.T. on food and fuel.

**1.2.13 Deputy P.J.D. Ryan of St. John:**

I have no notes at all. I was not going to speak on this at all but I feel that I have to say just one or 2 simple things. People will know that I have been a supporter of zero-rating G.S.T. on food now for some 10 years, ever since I first started to look at the fundamentals of G.S.T. when it was being initially thought about, in about 2003 or 2004, as I recall. I am just going to simply say that my opinion on the fundamental morality of taxing food has not changed. I think also there is a fundamental inconsistency in the policies of this Assembly over the last 10 years or so, in that we tax food and then appease our consciences by giving back the money through the benefit system in one way or another. Then a few weeks later we glibly pronounce in this Assembly that we want to do everything we can to dismantle the evils of a benefits culture with its insidious long-term undermining of social cohesion. That is all I want to say. I know that people will not agree me. It is a fundamental moral position that I have that it is wrong to tax food. I am less convinced about heating oil, *et cetera*. The wealthy certainly do have larger houses and spend considerably more than the average household will on heating oil. I do not believe in the argument that the wealthy spend more on basic foodstuffs than poorer people. I do not agree with that. I do not think that the evidence is robust. I have seen conflicting evidence on this. It all depends on how you define what is basic food stuffs. There are difficulties with the U.K. system, unquestionably, but that does not mean to say they cannot be overcome. I felt in all conscience that I had to stand up and say just a few words regarding the basic morality of taxing food.

**1.2.14 Senator F. du H. Le Gresley:**

I rise because I was alerted to the fact that Deputy Young was not aware that there was such a thing as a G.S.T. food cost bonus, and it may be that other Members are perhaps not too familiar with this particular bonus. For the benefit of Deputy Young and others, the bonus is a subject of triennial regulations, which expire next June. The bonus that was paid in June of this year was a fraction over £220 and the recipients total about 1,300, and 83 per cent of them are pensioners. The total budget is about £280,000. Clearly if we were to accept the amendment of Deputy Southern today that budget would be removed, the triennial regulations would not be renewed, and the people receiving that bonus would stop receiving it. I also need to remind Members that when we increase the rate of G.S.T. from 3 per cent to 5 per cent further money was put through under income support, to support income support households with the rising costs of G.S.T. on food. The question remains there, if this proposition was approved would we have to reduce some of the

components within income support? That is a political decision obviously. With respect to domestic fuel, we have cold weather payments under income support for certain households. The households that qualify are those with a child under the age of 3. Where there is a pensioner over 65 in the household and where a person within a household has a high level of impairment, which we call PC3, those are the households that receive cold weather payments, which last year were in the region of just over £300 for the winter months and, as Members will know, we introduced the cold weather bonus for pensioner households over the age of 65 who do not pay tax. Again, they received 2 payments this year, £72 in January and £232 in May. The cold weather bonus is also subject to triennial regulations that need renewal in June this year. So that is where the money, if you like, for supporting low income households, both on food and on domestic fuel costs or heating costs, is provided through the benefit system. That is all I have to say.

#### **1.2.15 Deputy S. Power of St. Brelade:**

I do not have an awful lot to say, which is essentially a reminder of what was said many times in this Chamber in 2006, 2007 and 2008. At this stage of the debate I have to say to colleagues that I am completely in unison with Deputy Noel and the Minister for Treasury and Resources. There was a time in this Chamber... I think 2006 or maybe 2007, I cannot remember exactly. There were a lot of debates about food exemptions - when we appeared to be close to approving a G.S.T. exemption on food - and I remember many tension-charged debates in this Chamber which went on for it seemed like days and days and even days at a time. As we go on through the track record, and I would say to Members a successful track record of the flat-lining rate of G.S.T., it seems to me that the justifications for G.S.T. food exemptions are not as strong as they were.

[12:15]

Members that joined this Assembly in 2008 and 2011 may not realise, as Deputy Higgins correctly said, there was a great debate as to why we needed the G.S.T. and that was the Zero/Ten debate. At the time I took the view in 2006 that the move towards indirect tax ... I had reservations about it then, and indeed I still do now. But when G.S.T. was approved by this Assembly, and I voted against it, I accepted that the only rate we had to have would be a simple system, a simple rate, and as simple a system as possible. I know from the Irish model and the British model that the U.K. and Irish V.A.T. systems are absolute nightmares to administer: constant appeals, heavy on public service input, expensive to administer, constant regional and variations on different food products and it is a very expensive system. I think Deputy Noel summed it up pretty effectively, some of the ludicrous examples of where we have contradictions in definitions and different interpretations of how we define a food item or a food product or a seed product or an animal product, or whatever. I decided in 2006 that once it was approved - I think it was 2006 - that it had to be kept at a flat rate. It was 3 per cent, it is now 5 per cent. I still think that is a justifiable rate and a justifiable system, and I cannot support this amendment and the other 2 clauses in it.

#### **1.2.16 Deputy C.F. Labey of Grouville:**

I just wanted to speak just to make my position absolutely clear because, as Members will know, I have supported this in the past because rather like the Deputy of St. John I feel that there is something fundamentally wrong with taxing the basics of life. We have had all the arguments in the past and I am not going to go and rehearse them again, as Deputy Le Fondré has done, other than just to point out a few things. When I tried to bring this proposition forward ... well, I did bring this proposition forward once and I think there was a tied vote, so that is how this Assembly was struggling with the idea of taxing food and life's basics, and I am afraid I do not go along with the argument: "Let us not help the pensioner because we might give some benefit to somebody heating their swimming pool." I am glad the Minister for Social Security has clarified a few points here, that it is put on to the low income support system now. However, there was a dilemma with



our pensioners in that this bonus was introduced and I think only a third of people claimed it. I am uncomfortable with taxing people on life's basics and then expecting them to go on to the benefit system to go and claim it back because as that proved when the bonus system was first introduced pensioners were not going to claim it back. They are proud people. I would like to pick up on the points raised by Deputy Young, as I think they are absolutely crucial in this whole debate of this indirect taxation. Indirect taxation is meant to form and develop a community, a society. A government is meant to do what is right. I do not think it is right to tax food, as I have already said. But other jurisdictions try and encourage, for example, education. They do not tax education materials, they do not tax newspapers, and they give young parents a helping hand by not taxing children's clothing. These are good things and as a society, as a government, we should be doing. We should be helping not just those on low income support but those in our society who might need a bit of help from time to time, and to encourage such things as reading newspapers without slamming a tax on it. I am quite sure this particular clause is not going to get through. There does not appear to be the appetite to follow the U.K. system. I must confess it is incredibly complex. I am, I have to say, a little bit disappointed with the Treasury Department in that they have not tabled something themselves, for example, not relieving the tax on healthy foods, on fresh foods and, an area I am particularly interested in, locally grown foods. Now, I would really like to see us remove tax from locally grown produce. I am sure there is a way of doing this without the earth falling in with the complexities that might come of it. I think as a government, as a society, we ought to not shy away from making a few exemptions where we feel they are appropriate. Thank you.

#### **1.2.17 Deputy J.A. Martin of St. Helier:**

I will be brief. It is just I sit and keep listening to the people who will not support us because they do not want to give more money to the rich. I always remember when the Minister for Treasury and Resources put the G.S.T. up from 3 per cent to 5 per cent and he knew that anything over 5 per cent a division in this House would be that we would have to exempt food from G.S.T. But, my problem is he is rigidly sticking to this 5 per cent across the board. So, if I know rich people or middle-earners are spending more money on food than the poor, they are certainly spending a lot more money on the luxury goods and the like of cleaning their swimming pool, but not addressed money to be had from the well-off, the higher tax payer, but not addressed because we cannot touch food. If you want to make money out of the G.S.T., and I am not saying you do not, this is where you have to start looking. Luxury goods should be higher than 5 per cent. It is a no-brainer. You can live without a luxury good if you are a low-earner or a middle-earner, but if you are a rich person you can spend and spend and spend. Why do I pay 5 per cent on my loaf of bread like everybody else? And if I had a swimming pool, to clean it would still cost me 5 per cent if I got the cleaner in to do it. It does not make sense. I will support this because the Treasury has not come up with anything better. Fundamentally, like everybody else says, it is food that we are taking it off. I really do wish that the proposer and I, again, stand here and was a bit probably tardy. I probably could have brought an amendment, because I would have liked to have seen it separated out of fuel, because fuel has gone absolutely... I know people who are not putting their heating on. We are not as cold as we could be, but we are getting there and I do not like people freezing in their own homes, because they cannot afford it. That would be easy. You do not get gingerbread fires. Thank you very much.

#### **1.2.18 Senator I.J. Gorst:**

I think most things have probably been said, but I just wanted to pick up on a couple of points, largely in response to Deputy Young and some of the comments that he made about the marginal rate system. I think he was congratulating the Treasury Department for bringing forward the piece of work that they have done and for the progress that they wish to make to simplifying further what is, as the Minister for Treasury and Resources, compared to international standards a very simple

tax system in the first place. There are perhaps some areas where the system would benefit further simplification and the ability to be able to fairly have an individual taxation system. I am grateful for his comments. I just wanted to, however, put those in context. If we take the income in bands, those earning income in the region between zero and £100,000 a year, this is using the 2011 assessment, there were 38,808 tax payers in the marginal bands. So, 97.8 per cent of marginal tax payers were in that band. Hopefully that gives some comfort to Members who might have been slightly concerned around some of the figures, although he acknowledged they were technical figures and there did not appear to be actual individuals around the benefit of reducing the marginal rate by 1 per cent. The other point that I think was slightly overlooked is that that 1 per cent is off the rate, so it is not to do with allowances and thresholds. It is off the rate, so anybody paying at the marginal rate would benefit from that. Why is that important? Well, it is because what we are being asked to decide in this debate is not a straightforward should G.S.T. come off food. Some Members will recall that in the past I have voted for G.S.T. to be removed from food. But what we are being asked for today is to choose between the 2: do we want to take G.S.T. off food and the uncertainty of a decision in this Assembly not being replicated by retailers or the certainty of agreeing today that we want to benefit 84 per cent of income tax payers with the 1 per cent cut in the marginal rate, which does benefit lower and middle earners? As difficult as it might be for some Members, those who find that taxing food is a moral issue. If we had, as the Minister for Treasury and Resources said, between £8 million and £10 million how would we apply it? Would we apply it so that we can be certain that it is going to benefit lower and middle-earners, middle-Jersey? Or would we apply it in a way which was we could not be quite so certain of the targeted benefit and we certainly could not be certain by any manner of means that it would be delivered any way to items of food which are currently subject to G.S.T. Therefore, as difficult as it might be for some in this Assembly, I would ask them to consider that question, because that is the question before us: do we want to use that money in an appropriate way targeting it with certainty or do we want to make a decision which will be uncertain, and there is a great possibility that it would not benefit those that I think right across this Assembly we want to see benefited through taxation. Therefore, I come to the conclusion that we must reject this amendment to the Budget.

**The Deputy Bailiff:**

Does any other Member wish to speak? Then I call upon Deputy Southern to reply.

**1.2.19 Deputy G.P. Southern:**

I thank everyone who has engaged in the debate. I think it has covered all the bases. As the Chief Minister correctly points out we are talking about one way of delivering a benefit and another way of delivering a benefit. It is not a question of just a G.S.T. debate on its own. To do that we need, I think, to strip out all this scaremongering and flim-flammery around the number of chocolate buttons on a gingerbread man's coat. This is raised every time we have this debate. It is completely spurious, because issues are resolved, if you like, in the U.K. courts. We do not have to act until resolution has been made. Then we can simply adopt that solution. That is a reasonable way to approach it. It is not going to administratively cost us a fortune. The estimate of what the cost is is £300,000 a year. That is perfectly reasonable for devising a system that we wish to devise, with exemptions, if that is what we choose.

[12:30]

As the Assistant Minister for Treasury and Resources said when he started talking about the pasty debacle, he said quickly: "That was rapidly shelved." It would not have disturbed us in anyway whatsoever. We could have a good laugh about what Osborne was up to and what a mess he had got himself into, but that would have been it. The law draftsman would not be preparing the ink and saying: "Well, I had better get on with this, what I am going to do about pasties." It would not

have happened. It was rapidly shelved. It was sorted. So the threat of all this admin, I think, is an irrelevance. The second thing that has been said time and time and time again is that this is targeted. I am grateful to Deputy Young, in particular, for his contribution where he started talking about how many people would benefit. We are talking about 28,500 people who this will not touch at all, at the bottom end and at the top end. We are talking about 40,000 people that it will impact. A substantial number, of the order of 40 per cent, of people on the Island completely unaffected by this and yet we are saying this is cleverly, carefully targeted. It is not. It does absolutely nothing for the bottom 20 per cent, for those, for example, on income support and in-work benefit, those on low wages. As he showed us in the graphs, kindly supplied by Income Tax, with exemption limits earning below, let us say this, getting into graph 1, £56,000 - no impact. Yet this stretches all the way up to the top of the band, people on £190,000 benefiting from this change. Is this targeted? Well, if it is targeted, it beats me why it is targeted where it is. We have heard from the Assistant Minister for Treasury and Resources, again, saying that we have to protect low income groups. We heard from the Minister for Social Security, Senator Le Gresley, who talked to us about the cold weather bonus and how that was organised and the G.S.T. bonus and how that is organised. As the Deputy of Grouville pointed out, that when it comes to pensioners they try not to claim that because it feels like charity. It feels like going cap in hand to compensate them for expenses that we know we have increased by the fact that we will not exempt food and heating fuel. Senator Le Gresley mentioned the cold weather bonus and the G.S.T. bonus and left something out. He did not mention that in 2014 before this properly kicks in in 2015, he will be taking another £3 million - he has committed to it - out of the Income Support pot, the reduction in the benefit available to those at the lowest end. That is the reality. So the protection that was offered by the Assistant Minister for Treasury and Resources, protection at the bottom end, come 2014 is not going to be there. We do not know how he is going to do it, because he will not tell us, but the Minister is going to take £3 million out of that additional support. We could target far better at the bottom end if we were to avoid this benefit sculpture, as was described quite accurately by the Deputy of St. John in his short but effective speech about what is the moral thing to do; very effective. Of course, we could not have a debate on this sort of thing, on taxation issues, without hearing from Senator Ferguson, whose contribution, while valuable, bore no connection with reality at all, in the fact that she described G.S.T. or V.A.T. as a progressive tax overall; absolute nonsense. Let us make it absolutely clear. G.S.T. is a regressive tax. It takes proportionately more from the poor end than it does from the top end. Not in absolute terms. If your income is £190,000 a year, yes, you will pay more tax in G.S.T., because you spend more. But you will save some of that £190,000 in all reality. Whereas at the bottom end, in among the income support recipients there is no saving going on, every penny that comes into the pocket goes out and it gets spent every time. If we can take some prices down in that spend then we benefit the bottom end proportionately more than the top end. That is proper targeting. Let us just have a look at what we are talking about. In particular on page 4 of my report I talk about a 12.7 per cent rise between 2012 and 2013 in electricity, a 16.3 per cent rise in gas prices and a substantial rise in the cost of heating oil. Essentials and yet we stick 5 per cent G.S.T. on them. Let us have a look at some of the figures. The proportion of household income accounted for essentials rose from 19.9 per cent in 2003 to 27 per cent in 2013. That is the U.K. figures: so a substantial rise in the spend on essentials. The cost of heating a home are disproportionately loaded on the poorest 20 per cent of the population - they are the U.K. figures again, but I think they apply here - and 6 per cent of expenditure on heating the home at least for the poorest 20 per cent compared to 3 per cent for the highest earners. Again, I refer to 17.5 per cent increase in the price of food. That does not include the 13 per cent associated with increasing the price of food in 2008, just before the recession really hit. Finally, our own figures from the Household Expenditure Survey 2009 to 2010, demonstrated the average spend on food was 10 per cent of the household expenditure and varied between 16 per cent for those with the lowest income, poorest quintile, to 9 per cent for the highest earners. That is the

reality. All this stuff about this progressive tax and the rich spend more, proportionately the poor pay relatively more, a great proportion of their disposable income and their expenditure than happens at the top end. If you really want to target then this is an effective way of doing this. Oh, yes, when we talk about the complexity of any system, we talk about targeting particular benefits at the poor end, the G.S.T. bonus and the cold weather bonus, but that is administratively burdensome. There is a cost there, an admin cost to say: “We are going to make you pay tax and then we are going to give you some of that money back.” That is not an economically efficient way of running anything. That is the reality. When we talk about the complexity of a system and the burden that it places on us and the administrative burden then we have to take that into consideration. Finally, I come back to the Deputy of St. John, who reminded us what this is about. There is a moral issue here: do we charge on the essentials of life because it suits us? I say: “No.” Do we thereby increase the dependency culture where more and more people are reliant on benefits? I would say: “No. Let us get the system right in the first place and then we will not have to rely on that dependency culture, that welfare culture, which we are increasingly dependent upon.” I maintain the proposition and call for the appel.

**The Deputy Bailiff:**

The appel is called for. I invite Members to return to their seats.

**Connétable D.W. Mezbourian of St. Lawrence:**

Excuse me, Sir. I wonder if the vote may be taken separately or whether it has to be together.

**The Deputy Bailiff:**

Deputy, I understood you wanted the vote taken as one vote on the 3 parts.

**Deputy G.P. Southern:**

It is either/or. If you start picking bits off it then you do not get the sums right.

**The Deputy Bailiff:**

That is the Deputy’s choice. I invite the Greffier to open the voting.

| <b>POUR: 10</b>          |  | <b>CONTRE: 33</b>           |  | <b>ABSTAIN: 1</b>  |
|--------------------------|--|-----------------------------|--|--------------------|
| Senator A. Breckon       |  | Senator P.F.C. Ozouf        |  | Deputy of St. John |
| Deputy J.A. Martin (H)   |  | Senator S.C. Ferguson       |  |                    |
| Deputy G.P. Southern (H) |  | Senator A.J.H. Maclean      |  |                    |
| Deputy of Grouville      |  | Senator B.I. Le Marquand    |  |                    |
| Deputy J.A. Hilton (H)   |  | Senator F.du H. Le Gresley  |  |                    |
| Deputy S. Pitman (H)     |  | Senator I.J. Gorst          |  |                    |
| Deputy M. Tadier (B)     |  | Senator L.J. Farnham        |  |                    |
| Deputy T.M. Pitman (H)   |  | Connétable of St. Helier    |  |                    |
| Deputy M.R. Higgins (H)  |  | Connétable of Trinity       |  |                    |
| Deputy J.M. Maçon (S)    |  | Connétable of St. Clement   |  |                    |
|                          |  | Connétable of St. Lawrence  |  |                    |
|                          |  | Connétable of St. Mary      |  |                    |
|                          |  | Connétable of St. John      |  |                    |
|                          |  | Connétable of St. Ouen      |  |                    |
|                          |  | Connétable of St. Brelade   |  |                    |
|                          |  | Connétable of St. Martin    |  |                    |
|                          |  | Connétable of St. Saviour   |  |                    |
|                          |  | Connétable of Grouville     |  |                    |
|                          |  | Deputy R.C. Duhamel (S)     |  |                    |
|                          |  | Deputy R.G. Le Hérisier (S) |  |                    |

|  |                             |  |  |
|--|-----------------------------|--|--|
|  | Deputy of St. Ouen          |  |  |
|  | Deputy J.A.N. Le Fondré (L) |  |  |
|  | Deputy of Trinity           |  |  |
|  | Deputy S.S.P.A. Power (B)   |  |  |
|  | Deputy K.C. Lewis (S)       |  |  |
|  | Deputy E.J. Noel (L)        |  |  |
|  | Deputy A.K.F. Green (H)     |  |  |
|  | Deputy G.C.L. Baudains (C)  |  |  |
|  | Deputy J.H. Young (B)       |  |  |
|  | Deputy S.J. Pinel (C)       |  |  |
|  | Deputy of St. Mary          |  |  |
|  | Deputy of St. Martin        |  |  |
|  | Deputy R.G. Bryans (H)      |  |  |

## LUNCHEON ADJOURNMENT PROPOSED

### Senator P.F.C. Ozouf:

Sir, I think in Senator Routier's absence may I propose the adjournment, so that we can go and have our warm sustaining soup?

### The Deputy Bailiff:

The adjournment is proposed. We will reconvene at 2.15 p.m.

[12:40]

## LUNCHEON ADJOURNMENT

[14:16]

### 1.3 Draft Budget Statement 2014 (P.122/2013): third amendment (P.122/2013 Amd.(3))

### The Deputy Bailiff:

We come next to amendment 3, lodged by Deputy Southern. I ask the Greffier to read the amendment.

### The Greffier of the States:

Page 2, paragraph (a), after the words "as set out in the Budget Statement" insert the words "accept that income tax exemptions for the area assessment 2014 shall be increased by 2.2 per cent and not by 1.5 per cent as proposed in the draft Budget Statement."

### 1.3.1 Deputy G.P. Southern:

Thankfully this amendment is far simpler than the last one. In fact, I believe it is very straightforward. What it suggests is that the exemption limits should be raised not by 1.5 per cent but by 2.2 per cent. Why? Because what we are dealing with here is income tax. Income tax, as its name suggests, is based on income, not on R.P.I (Retail Price Index). What happens normally in a tax year is if you have uprate exemption limits then, as people's wages go up, they automatically pay proportionately more tax. What the Minister for Treasury and Resources has here is a partial dealing with exemption levels, is partially protecting people against the impact of fiscal drag. Now, the arguments presented by the Minister for Treasury and Resources can be summed up in 3 points. He says this amendment is entirely inconsistent with the Deputy's first amendment. Of course, it is. The first amendment said: "This is not the best way to do what you are trying to do. Do it this way instead." Having lost that debate the debate moves on. This debate is about whether or not this is the right method. This is the method you have chosen and we have accepted. So, if you are

going to use this method then please do it correctly using the right figure and not incorrectly using a wrong figure, which only gives partial protection to people. It is as simple as that. The reality is that in the private sector the average earnings index went up by 2.2 per cent overall. Private sector earnings went up by 2.4 per cent. So, if you want to protect from fiscal drag and give some money away, give some tax away, to people so that they can spend it then, please, choose the right figure. Overall the figure is 2.2 per cent. If you put 2.2 per cent in the calculation then everybody gets the benefit of protection from fiscal drag, nobody is made worse off. If you do not do that, if you only partially protect, then what you are doing is changing the income tax rate, worth around about £8 million, and not accounting for, but at the same time by partially protecting, you are taking £1.3 million of that back. So it does not do what you are trying to do, getting money into people's pockets and from there out into the economy. The Council of Ministers then say that the Council of Ministers' proposal is part of a package of measures. Of course, if it is raised from 1.5 per cent to 2.2 per cent it is still part of the same package of measures. That package of measures is designed to give people more money in their pockets, so they can spend it in the local economy. One of the actions they are taking is to protect against fiscal drag; simple as that. Then it says: "The shortfall is not funded." Well, we could not possibly have that, could we? The policy is: make sure people have got more to spend. The correct figures are 2.2 per cent not 1.5 per cent. But obviously that is not funded because we have not put it in the sums. Does that mean we cannot find £1.3 million extra to go into people's pockets and into the economy? Of course we can. I think we have some £20 million in contingency. There are all sorts of ways that we can do this and achieve what we have set out to achieve. As you read through the 13 points, none of which I think are of any great relevance apart from point 7. It just simply states: "In recent years the practice has been to increase the tax exemption threshold by reference to the lower of the R.P.I. figure and the annual increase in earnings." How generous they were. However, in the 2013 Budget the income tax exemption thresholds were increased by 3 per cent, in line with the increase in R.P.I. for the year to 30th June 2012. This was the higher of the R.P.I. figure and the annual change to average earnings index, being 1.5 per cent, and was introduced to assist those taxpayers at the lower end of the earnings threshold; to assist those at the lower end of the earnings threshold. What my proposal does instead of picking the lower of 2 figures, it picks the higher of 2 figures, which is what happened last year, and says apply the higher figure then you fully protect people from fiscal drag. The fact is that in making the point which is contained in 7, they are saying: "The Minister for Treasury and Resources did exactly this last year. He picked the higher of 2 figures, given the choice. But now this year we do not want to do that again. Deputy Southern, terribly rash creature that he is, is picking the higher figure, which we did last year and we do not want him to this year." What is that about? Is that an argument, a rational argument? I do not think it is. The fact is we can do this, fully protect and I do not foresee any great problem being done. I maintain this particular amendment.

#### **The Deputy Bailiff:**

Is the amendment seconded? **[Seconded]**

#### **1.3.2 Senator P.F.C. Ozouf:**

It is traditional that on the first day of the Budget the Shelter Trust organise their soup kitchen. I would take this opportunity of congratulating all those people that have been involved in the soup kitchen **[Approbation]** for not only sustaining Members, but also perhaps giving us an opportunity to reflect on those less fortunate members of society that are the recipients of the proceeds that are raised. It is also a good opportunity to see people that one does not see very often. I had the opportunity of speaking to my immediate predecessor, former Senator Terry Le Sueur. I say that because I believe that we should be having regard, and the theme of this debate should be having a regard, to medium and longer-term planning, medium and longer-term planning that is consistent,

that just simply does not move one year ahead. Deputy Southern might not like it, but the remarks and the comments that we have published do point out the complete inconsistency of this amendment debate with that that we have heard recently in the debate before lunch. It is completely inconsistent. One minute Deputy Southern is saying: “Take away all the exemption limits” and the next minute he is saying that we should increase it. I fully understand Members who voted and have a moral view about the food issue. I understand that and respect those Members that have got that view. But this is short-term decision making at its worst. It is, I think, entirely wrong. I would hope that the Treasury, and indeed any of the Ministers for Treasury and Resources that have brought forward proposals in Budgets in recent years, are not accused in this debate of being inconsistent. We have been consistent in lifting people out of tax. There is a lot of discussion in this debate that rightly needs to be focused on the marginal rate of tax and how that marginal rate of tax has been so effective in not only reducing the tax paid by lower and middle income people, but removing people from tax. That is what this amendment debate is about. In lifting the exemptions higher than that of inflation, effectively you lift people more out of tax. I know that it is again complicated and we have 4 exemption thresholds. The exemption thresholds are proposed for a single person to increase unamended up to £14,000. What that means, in plain English - I realise that the tax marginal rate system is sometimes not in plain English – is that there is a tax-free allowance. In the U.K. we hear the Coalition aiming towards having a tax-free allowance of £10,000. Of course, tax coming in at much higher rates above £10,000. In Jersey we have, for a single person, automatically a tax-free allowance of £14,000. Then, because of their circumstances they can then if they are a married couple they can lift them on to that. I mention my predecessor because we have in recent years made some important decisions that lifted the exemption limits well over that of R.P.I. We lifted in 2008 the exemption limits by £600 when G.S.T. came in. We lifted them again by 5 per cent, by another £500 to £600 in 2009. We lifted them by 4.5 per cent in 2012 and last year by 3 per cent. In real terms the real value of the exemption limits has been much greater than the elevation of prices. We have taken a lot of people out of tax. Some Members will say that that is perhaps not a good thing. We are asked in this Budget debate and I ask Members to accept the package of measures we have proposed. Inflation is low, it is historically low and we are seeing earnings rise. Inflation normally takes money out of people’s pockets, but if earnings are rising faster than inflation, people are better off. I am proposing to maintain the exemption limits by an increase of 1.5 per cent. This is a carefully judged package, having regard to the previous year’s exemption limits and having regard to the marginal rate of tax. Deputy Southern needs to explain again in his summing up how he can reconcile this proposed amendment with the last one. I urge Members to reject this proposition. I realise that it is tempting, but I would urge Members to reflect upon the substantial increases in the exemption limits that we are making, the targeted arrangements that we are helping for certain individuals, the ones that we have done in the past, working families with childcare, the additional arrangements we are making with children at university on the marginal tax rates. This is a carefully judged, balanced proposal of amendments. I am not getting into the duty debates, I am just talking about the income tax ones. I urge Members to reject the amendment.

### **1.3.3 Deputy J.G. Reed of St. Ouen:**

Just to pick up on a couple of points the Minister for Treasury and Resources makes. First of all, I would like to remind him that in his comment, and he makes great play at times regarding the States approval of the Medium-Term Financial Plan, but the Medium-Term Financial Plan allowed for a 3 per cent increase in tax exemption thresholds.

[14:30]

It did not propose or indicate that we were going to reduce the marginal rate by 1 per cent. The Minister for Treasury and Resources also in his comments suggests that this proposal would take

530 people out of the band that would pay tax. He neglected to say that the reduction in the marginal rate from 27 to 26 per cent would replace or take 12,000 roughly, I believe, out of 20 Means 20 and replace them into their marginal tax relief band. These people are earning £100,000-plus. The issue is: do we protect those on the high incomes or do we try and protect those and provide for those on the lower ones? The Minister for Treasury and Resources then said that currently a single person has a tax-free allowance of £14,000. That may sound a lot, but that is about, on my calculations, approximately £270 a week. That is not a lot of money to pay for accommodation, food and everything else. So, let us not believe that these people who would be taken out if it was chosen to accept Deputy Southern's amendment, would be and are and could be considered well-off in any real term. I just make those points. I would be interested to hear other comments during this debate. Thank you.

#### **1.3.4 Deputy E.J. Noel:**

I just want to pick up on a couple of points of Deputy Southern and the previous speaker. If I can deal with Deputy Southern first, he mentions that his measure could possibly be funded out of contingencies. That simply is not the case. Contingencies are not there for year on year revenue spend. They are there for one-offs, so we could not get the monies out of contingencies. To reflect on what the Deputy of St. Ouen has said. He said we should be protecting low income earners and not high income earners. We have protected in the past low income earners. I am suggesting that we have an earnings related 1.5 per cent now. But what we are doing with the marginal rate dropping to 26 per cent, we are helping the vast majority of hardworking Jersey families. This is a package. It is not either/or. I ask Members to reject this amendment.

#### **The Deputy Bailiff:**

Does any other Member wish to speak? Then I call on Deputy Southern to reply.

#### **1.3.5 Deputy G.P. Southern:**

The shortness of this debate is obviously because it is totally and absolutely clear [**Laughter**] that despite the obfuscation about margin rates, *et cetera*, the thing is about fiscal drag, protection of people against fiscal drag. What we have here is a Budget which says: "We are going to put money in people's pockets so they can spend it in the local economy, except that we will not completely compensate for fiscal drag and while we give you something like £7.5 to £8 million with one hand by reducing the rate, we will not shift the exemptions enough to protect that as well, we will take £1.34 million of that back, thank you. So, we are putting some money in your pockets to stimulate the economy, but not this much because we are not fully protecting." That has the biggest impact down at the bottom end when you are just into tax, that is where it really hurts, because if your earnings go up by 2.2 per cent next year then you will be paying significantly more tax than you were this year. As you just get in, you just pay a little tax, then with the first increase you get that starts going up very rapidly indeed. So, if we want to do what the Minister for Treasury and Resources says he wants to do then what we should do is use the right index. The correct index clearly is the higher one, average earnings index, because that is what people are taxed on, average earnings. There is no 2 ways about that, taxed on earnings. The indicator should be earnings, it happens this year to be the larger of R.P.I. or average earnings. Last year it was the other way round. They chose, the Minister for Treasury and Resources chose, the higher rate to make sure people were fully protected. This year he says he wants to do that again, but he is not going to pick the right figure. So it is partial protection. I think it is simple. Members obviously can make their mind up on this. Then the Deputy of St. Ouen, very clear presentation, said that what is happening here, when you are talking about a threshold at £14,000 it sounds like an awful lot, it is marginally above the minimum wage and that is when tax kicks in for a single person. So I think his argument is correct; we should be supporting this amendment. As for Deputy Noel, he said we cannot fund



long-term spend year on year. I say, well, sort it from contingencies this year and then you can sort it in next year's Budget, because you can balance your book again. You get a fresh go at it. That is perfectly possible. I maintain the amendment and call for the appel.

**The Deputy Bailiff:**

The appel is called for. I invite Members to return to their seats. The vote is on the third amendment of Deputy Southern. I ask the Greffier to open the voting.

| <b>POUR: 11</b>             | <b>CONTRE: 29</b>           | <b>ABSTAIN: 0</b> |
|-----------------------------|-----------------------------|-------------------|
| Senator A. Breckon          | Senator P.F. Routier        |                   |
| Connétable of St. John      | Senator P.F.C. Ozouf        |                   |
| Connétable of St. Saviour   | Senator S.C. Ferguson       |                   |
| Deputy J.A. Martin (H)      | Senator A.J.H. Maclean      |                   |
| Deputy G.P. Southern (H)    | Senator B.I. Le Marquand    |                   |
| Deputy of Grouville         | Senator F.du H. Le Gresley  |                   |
| Deputy J.A.N. Le Fondré (L) | Senator I.J. Gorst          |                   |
| Deputy S.S.P.A. Power (B)   | Senator L.J. Farnham        |                   |
| Deputy M. Tadier (B)        | Connétable of Trinity       |                   |
| Deputy T.M. Pitman (H)      | Connétable of St. Clement   |                   |
| Deputy M.R. Higgins (H)     | Connétable of St. Lawrence  |                   |
| Deputy J.M. Maçon (S)       | Connétable of St. Mary      |                   |
| Deputy G.C.L. Baudains (C)  | Connétable of St. Ouen      |                   |
| Deputy J.H. Young (B)       | Connétable of St. Martin    |                   |
|                             | Connétable of Grouville     |                   |
|                             | Deputy R.C. Duhamel (S)     |                   |
|                             | Deputy R.G. Le Hérisier (S) |                   |
|                             | Deputy of St. Ouen          |                   |
|                             | Deputy J.A. Hilton (H)      |                   |
|                             | Deputy of Trinity           |                   |
|                             | Deputy K.C. Lewis (S)       |                   |
|                             | Deputy E.J. Noel (L)        |                   |
|                             | Deputy A.K.F. Green (H)     |                   |
|                             | Deputy of St. John          |                   |
|                             | Deputy S.J. Pinel (C)       |                   |
|                             | Deputy of St. Mary          |                   |
|                             | Deputy of St. Martin        |                   |
|                             | Deputy R.G. Bryans (H)      |                   |
|                             | Deputy R.J. Rondel (H)      |                   |

**1.4 Draft Budget Statement 2014 (P.122/2013): fourth amendment (P.122/2013 Amd.(4)) - paragraph (a)**

**The Deputy Bailiff:**

We now come to amendment 4, which was lodged by Deputy Young. We are going to deal first of all only with paragraph (a). I will ask the Greffier to read the amendment.

**The Greffier of the States:**

Page 2, paragraph (a), after the words “as set out in the Budget Statement,” insert the words “except that (a) the higher child allowance (comprising the additional tax relief of £3,000 proposed in the draft Budget Statement and the existing £6,000 allowance making a total of £9,000) for the year of assessment 2014 due to taxpayers whose income for 2014 falls below the income tax exemption thresholds with children over the age of 17 in higher education, may, by agreement, be wholly or

partly transferred to a relative (including grandparents) of the tax exempted taxpayer, who has provided financial support to a child relative under 25 years (including grandchildren) for higher education purposes and such relative shall then qualify for this income tax relief.”

**Connétable A.S. Crowcroft of St. Helier:**

Sir, before the Deputy proposes could I just seek clarification about whether Members with children in higher education next year need to declare an interest on this one?

**The Deputy Bailiff:**

It is a taxation measure of general application and in my view it is unnecessary to declare the interest, in the same way as one would not expect an interest to be declared in relation to income tax levels which are being set.

**1.4.1 Deputy J.H. Young:**

In common with most people of my generation, having brought up my children into adult life and face the costs of schools, university and getting them into a profession, I think the costs of that obviously are very substantial but it is what most people want to do for their young people, where they are able to do that. Of course there are others that are not able. I think there is no question that the Island does need to invest in its young people, to ensure that our future economy has all the skills available that it needs. So, in bringing this amendment what I am trying to do is take what is the proposal in the Budget and adjust it to extend its operation to a wider group. It is a very modest amendment. Some would regard it as detail. Some might regard it as unnecessarily so. But, I think it is important when we have a debate such as this to attend to particular areas which affect certain groups of taxpayers in looking at those changes in a little bit more detail rather than just talking about the big picture. This is the first of 6 items that I have put in my amendment. When the Minister for Treasury and Resources announced this change, first of all I think he heralded it before the Budget was published and it was received very, very warmly. This followed on the decisions the House made earlier in the year about changes to the grant rules which meant that certain families would not be able to have the support for university that they might have expected, and of course with the trend in the U.K. and the universities to the additional costs and we all know that it is not sustainable for the Island to meet unlimited costs of supporting our youngsters through further education. The dice are stacked against us as they are elsewhere. I thought when I first heard the Minister for Treasury and Resources’ announcement this was a universal benefit but of course I was very disappointed to read on then in the small print going back to it later when all of us had an email from a taxpayer pointing out that this was only going to benefit marginal taxpayers. Of course the particular argument was that it should be extended to all taxpayers and not just marginal. I can understand that because the level of understanding generally, my own included, in how the marginal tax system works is not that great. You have to really look at it very closely as I have done in preparing this amendment. What we find there when you do that is that the current system provides child allowances and the existing higher child allowance. Those are universal allowances. They are not assigned only to marginal taxpayers. All taxpayers whether standard or marginal receive child allowance and a higher child allowance. Why I was really puzzled is what is the logic for when we make an increase in one of those allowances that we say: “We are only to give it to part of the people”, and bearing in mind we are talking about here, if you remember, the same figures apply as in the debate on Deputy Southern’s earlier amendment. Forty thousand marginal taxpayers, 28,000 people fall outside of that at both ends of the scale, those that are standard taxpayers at the top end and those that are exempt and do not even get in the system at the lower end. I started to check this out and I found that it is pretty prevalent for other family members particularly grandparents to support their family members through university costs.

[14:45]

I am prepared to take a guess that there were many people in this House either in their families or know of young people who are brought into successful further education and careers with the benefit of support through arrangements that we used to call deeds of covenant. Deeds of covenant were where there could be a formal arrangement where family members would make a commitment for 5 years to pay money which they would then get the benefit of. I see in the papers here that that is now not fashionable and I suppose I have to accept that, but I applied to my mind to what can we do here to achieve greater equity which, as I have said in my earlier speech on the previous one, is one of the Minister for Treasury and Resources' own commitments towards greater equity particularly as we are looking at these graphs. I really do appreciate the work that the Treasury and Income Tax Department did for me in preparing those because I was really quite astonished to find out that the marginal scale went up to such a high level of income in the family circumstances where there are a number of allowances, 190,567 in the graph 1 which we spoke about before. I was really surprised at that. I didn't expect to see that. I then decided that I could not personally justify coming forward with an amendment to the basic rates to taxpayers to increase that. I feel bad about that because I think their case is strong but I felt that here today one has to make the priority looking at the other end of the scale where there are those families that fall below those exemption thresholds in the charts that I published for you earlier, charts 1 and 3, 50,900 being the exemption threshold. I thought what could be done about this because as people fall below the tax there is no way that they can draw a tax benefit from an increased allowance. I started to think what happens with ordinary child allowances at the moment and obviously from my background working in a law firm I know that where in the instances of divorce and separation agreements are struck between family members to allocate child allowances between them. That is the existing child allowances. They do come to those agreements and those agreements run for many years. They endure basically right through often from very young age of a child right through to 25 if they go through education. I found it difficult to accept that this cannot be done, it is not easy, because it is already done in the case of child allowances, the ones that I said which are universal allowances, which incidentally if you want to look at that have a look at page 16 in the Minister for Treasury and Resources' tax policy report and that explains it very clearly. Looking again in the U.K., I found that it is quite normal, and I have forgotten the figures, I apologise for that and I meant to bring the figures, the amount of support that is provided by grandparents and extended families to young people is very high. Obviously in the U.K. it is because they do not have a grant regime at all. The youngsters are saddled with massive student loans when starting their working life in the U.K. My proposal is that where that situation exists, where somebody who is below the tax threshold and cannot benefit from the allowance, that by agreement with other family members they would be able to reach an agreement to transfer all or part of the allowance to that taxpayer. That would be irrespective of whether that person to whom the benefit was transferred was marginal or basic or standard rate taxpayer. There would be not much point in transferring from one exempt taxpayer to another. I would like to find a way of doing that but one cannot do the impossible. I was very pleased to see that the Minister for Treasury and Resources in his comments said that my amendment was well-intentioned. I do appreciate that, thank you. It is meant to be well-intentioned. I was a bit disappointed to see the way the deed of covenant scheme is treated in such a derogatory way, which used to exist and was abolished. It seems to be wrong that family members are not able to enter into arrangements. I see people shaking their heads but to me, maybe I am old-fashioned, maybe I am a dinosaur but I still think that was a very successful way of doing things. It then goes on to say the Treasury comments as to why it should not be adopted: "Potential for the tax relief that is transferred to be claimed and granted without the person paying any money". How far does one have to go in drafting an amendment? Do I have to draft the law? Do I have to draft the rules? It is a simple administrative procedure when you claim mortgage interest relief if you are a marginal taxpayer. You get a statement, you get a receipt if you like, and that is what is used for verification. It says the legislation would be administratively

complicated but it is already there for standard child allowances. Later on in the comments over the page it said: "The agreement might be to allocate or at least the excess part", and there is a point here that obviously it should really only be the excess of the unexpired allowance that would be transferred as it would not make sense because otherwise what might happen is an exempt taxpayer would transfer the allowance to another family member only to find that they were no longer exempt because they lost the allowance. They incurred a tax liability. It would be the balance. What I am told here is this tax planning. It is not reasonable that people should be able to manage their affairs to make sure that they pay what is due and no more. I just thought it was a little bit unfair to say: "All these additional concerns were reasons why we could not do it", because to me those are the fine details that if I was having a go at drafting the law one would do them. There is an administrative burden but I do not think that the numbers are going to be that great. In terms of the cost, obviously again Income Tax and the Treasury were very helpful providing me with estimates and I use the figure here in my report of £538,000 in a year. I am not so sure I put in my report that the Treasury in their note said to me that this was the worst case. This is the worst case if all of the youngsters that might benefit from such a transfer arrangement when it happens do so. There is no compulsion here. This is for families to see if they can come to an arrangement. My view is that I think that there would be in fact less than that. It is somewhere between, according to the range of figures that the Income Tax Department gave me, £250,000 and £538,000. I think that is all I wanted to say. Some might see it as a detail. I would hope this Assembly is able to attend to these details and give them serious consideration because they are important to the people concerned and I think that they are also going to have benefits to the wider community in terms of education. That is my amendment and I make the proposition.

#### **The Deputy Bailiff:**

Is the amended seconded? [**Seconded**] I can see the Minister for Treasury and Resources.

#### **1.4.2 Senator P.F.C. Ozouf:**

Thank you. I am grateful for the complimentary remarks that Deputy Young has made about the data that has come from Income Tax, and I think that in fact this debate is a useful one because it helps us further understand what marginal rate is and how we are directing a particular benefit to individual people in a targeted way. We are having a debate, absolutely rightly, and the Deputy, no question at all, there is no criticism, his amendment is absolutely well-intentioned and I will even go so far as to say that when we first looked at it in the Treasury we said: "This looks like an amendment that we might be able to accept." Deputy Young has made a number of comments about the marginal rate system, he has referred to it in this amendment and he has made some remarks earlier, and I will not duplicate the remarks, his comments are almost - and I understand that, I have found it difficult to understand who we are helping sometimes with the marginal rate system - I will not say they are inconsistent or he is being in any way disingenuous, but they are a little bit confusing. He was saying earlier that at the heart of this is the fact that we are proposing an additional benefit for people who are on marginal rate. Deputy Young said he was quite surprised at just how high the income threshold for people kicks in at, and I have a detailed note that I have helpfully had from the Controller which I will send to Members, about a further analysis of the amount of individuals that are on the marginal rate of tax over, for example, £150,000. There will be some exceptional circumstances. There will be a minority of taxpaying, mainly couples it has to be said who are in the marginal band but they have exceptional circumstances. They have perhaps maybe 2 children with enhanced child care relief. They have a mortgage where a marginal taxpayer is able to claim mortgage interest tax relief. Maybe they have a fixed-rate mortgage at a fairly high interest rate and therefore they are still paying marginal rate tax. Maybe they have a number of children and so there are going to be individuals who are on really quite high incomes who are paying at the marginal rate. At the heart of what Deputy Young is saying, he is

saying: “We should extend this further.” Deputy Noel and I spent a lot of time on this whole issue of the higher child allowance and we really did some soul-searching as to whether or not we should extend it universally as Deputy Young said that he was tempted to do in his amendment. When we understood that in relation to other grandparents and other people maybe who were looking after relatives, who were looking after children at university and helping them get through, I am afraid that again the comments about the fact that we should link to the U.K., we do not have anything like the same system of U.K. tax rate. We do not have anything like the loans that people have so I think to make the comparison between Jersey and the U.K. is wrong. When we were reminded that this higher child allowance was issued because the deed of covenant arrangement was abolished after being abused, I am not an accountant, my Assistant Minister is and no doubt he will make some comments about that, he explained and other tax professionals explained to me that the deed of covenant was abused. The higher tax allowance was made available for those reasons. I also do not think it is fair to say that we in any way oversold the higher child allowance when we made the proposals. We have always made it clear that it was for marginal taxpayers and indeed that is more than 80 per cent of taxpayers. To say that the majority of households and the majority of children that are at university will benefit from the arrangement is true but there comes a point at which it should not be made available anymore and that is why we have just made it for marginal taxpayers, and to extend it we have already made the change. We do not want to create a system that can be abused. We do not want to create a system whereby relatives could be giving a young person money and then either taking it back or some other family arrangement. Those sorts of things just do not have a place in a tax system. They should be simple. They should not be easily avoidable or not easily circumnavigated around. I appreciate the sentiments that Deputy Young has made but I refer Members to the abolition of the deed of covenant arrangement, the targeted arrangement that has been made. I do not criticise the Deputy but I do not think the argument has been made to make the amendment that he is making. I suspect I think he realises that perhaps there is an inconsistency in his argument. One minute he is saying: “Do not help people on high incomes”, the next minute he is saying you should not. We will have the debate but the amendment should be rejected.

#### **The Deputy Bailiff:**

Does any other Member wish to speak? I call on the Deputy to reply.

#### **1.4.3 Deputy J.H. Young:**

Thank you. I appreciate all the Members who have spoken. **[Laughter]** I think I own up to the inconsistency, I think I prefer to call it rather than confusion.

[15:00]

What I was seeking to do in my explanation was that I would have personally preferred to see this as a universal benefit, universal allowance for everybody because the higher rate tax allowance is already a universal benefit. If we are talking consistency it seems to me that consistency would have said to make it a universal allowance. I do not think the amount of money we are talking about is that great and while I appreciate that the Minister for Treasury and Resources and the Assistant Minister spent a lot of time, as it were, searching their souls over it I think probably it was that it is not the biggest financial effect compared with the other things that we are going to discuss today, and I think the benefit should have gone with making a universal allowance. I then did make clear, and if I did not I will try and do it now, that I was surprised because I did not realise the cut-off limits were that high and so therefore I did not feel that we should be able to extend it to that group. There is clearly and it is unequivocally the case that those taxpayers or those people in the tax system that are exempt will not get the benefit of it, absolutely will not. There is no smoke and mirrors about that, 40,000 people are marginal and 28,000 without. What I was trying to do was

find a way of ensuring that the scope could be widened by reallocating that to other taxpayers in all parts for family members. I had a deed of covenant for one of my children, for my son, but unfortunately the drawbridge was pulled up on the second one. I like to think I am an honest man. The monies were paid. Are we going to make our decisions on the basis that everybody is fiddling? Is this the right outlook on life? I can see Members saying it is. **[Laughter]** I do not. Accountants are honest people and I was expecting to hear the Assistant Minister tell me about this fiddling because I certainly was not aware of it. I am not suggesting that the Assistant Minister was fiddling but the Minister for Treasury and Resources did say that the Assistant Minister was very knowledgeable on this subject. **[Laughter]** Maybe I have said enough. It is a simple choice here. I think this will help; most definitely it will help a number of people who fall within the exempt category, maybe not a vast number but I think it is worth making that change and supporting those people. I was not intending to suggest about comparisons of the U.K. This solution is a Jersey solution for Jersey's problems and I make the proposition and ask for the Appel.

### **The Deputy Bailiff:**

The appel is called for and I invite Members to return to their seats. The vote is on paragraph (a) of amendment 4 and I ask the Greffier to open the voting.

| <b>POUR: 14</b>             |  | <b>CONTRE: 29</b>             |  | <b>ABSTAIN: 0</b> |
|-----------------------------|--|-------------------------------|--|-------------------|
| Senator A. Breckon          |  | Senator P.F. Routier          |  |                   |
| Connétable of St. John      |  | Senator P.F.C. Ozouf          |  |                   |
| Connétable of St. Saviour   |  | Senator S.C. Ferguson         |  |                   |
| Deputy J.A. Martin (H)      |  | Senator A.J.H. Maclean        |  |                   |
| Deputy G.P. Southern (H)    |  | Senator B.I. Le Marquand      |  |                   |
| Deputy of Grouville         |  | Senator F.du H. Le Gresley    |  |                   |
| Deputy J.A.N. Le Fondré (L) |  | Senator I.J. Gorst            |  |                   |
| Deputy S.S.P.A. Power (B)   |  | Senator L.J. Farnham          |  |                   |
| Deputy M. Tadier (B)        |  | Connétable of Trinity         |  |                   |
| Deputy T.M. Pitman (H)      |  | Connétable of St. Clement     |  |                   |
| Deputy M.R. Higgins (H)     |  | Connétable of St. Lawrence    |  |                   |
| Deputy J.M. Maçon (S)       |  | Connétable of St. Mary        |  |                   |
| Deputy G.C.L. Baudains (C)  |  | Connétable of St. Ouen        |  |                   |
| Deputy J.H. Young (B)       |  | Connétable of St. Martin      |  |                   |
|                             |  | Connétable of Grouville       |  |                   |
|                             |  | Deputy R.C. Duhamel (S)       |  |                   |
|                             |  | Deputy R.G. Le Hérisssier (S) |  |                   |
|                             |  | Deputy of St. Ouen            |  |                   |
|                             |  | Deputy J.A. Hilton (H)        |  |                   |
|                             |  | Deputy of Trinity             |  |                   |
|                             |  | Deputy K.C. Lewis (S)         |  |                   |
|                             |  | Deputy E.J. Noel (L)          |  |                   |
|                             |  | Deputy A.K.F. Green (H)       |  |                   |
|                             |  | Deputy of St. John            |  |                   |
|                             |  | Deputy S.J. Pinel (C)         |  |                   |
|                             |  | Deputy of St. Mary            |  |                   |
|                             |  | Deputy of St. Martin          |  |                   |
|                             |  | Deputy R.G. Bryans (H)        |  |                   |
|                             |  | Deputy R.J. Rondel (H)        |  |                   |

### **1.5 Draft Budget Statement 2014 (P.122/2013): fourth amendment (P.122/2013 Amd. (4)) - paragraph (b)**

**The Deputy Bailiff:**

We now come to paragraph (b) of Deputy Young's amendment, the fourth amendment. I ask the Greffier to read it.

**The Greffier of the States:**

After the words as set out in the Budget statement insert the words "except that (b) the estimate of income from taxation during 2014 shall be decreased by £20,000 by reducing the *de minimis* limit on charitable donations on which the charity may reclaim the tax applicable from £100 to £50".

**The Deputy Bailiff:**

Minister for Treasury and Resources, is it right that you do not oppose this amendment?

**Senator P.F.C. Ozouf:**

It has been accepted.

**1.5.1 Deputy J.H. Young:**

Before I formally propose it, and I am very grateful to the Minister for Treasury and Resources for making that change and accepting the proposition, it does back-up the things that he committed to in the States so that is excellent. At the moment £768,000 worth of tax is repaid to 151 charities. It is clear that that very modest cost, the £20,000, the amount of money and the number of charities benefiting from this will increase. I should also mention I am sure when we get to it the Minister for Treasury and Resources will also tell us there other elements of this by changing some of the detailed rules that will also increase this too. I think this is good support for the third sector and I make the proposition.

**The Deputy Bailiff:**

Is the amendment seconded? **[Seconded]** Does any Member wish to speak?

**1.5.2 Senator P.F.C. Ozouf:**

I do not really need to say much, Deputy Young has said of course this is what a part of an overall review of the third sector. The Assistant Chief Minister, Senator Routier, looked after the third sector. There is now a third sector co-ordinator. We are hopefully doing more in order to help and fortify, strengthen activities within the third sector. We looked at this amendment. There seemed no reason to oppose it. It is part of an overall package of new arrangements, the new Charitable Purposes law. The Treasury is currently almost the charities regulator if there is such a thing which is inappropriate. We need to put new arrangements in place. We are happy to accept the amendment.

**1.5.3 Deputy J.A.N. Le Fondrè:**

Very briefly, I am glad the Minister for Treasury and Resources made the comments about the review of the third sector. Firstly, it is very welcome by the Minister for Treasury and Resources in accepting this amendment. One thing I would just like to flag up for future work whether it is to Senator Routier or to Senator Ozouf, when G.S.T. was first introduced we obviously had the issue with charities and the fact that charities could not get a reclaim on G.S.T. I hold my hands up because I did not pick up on this at the time. I rashly assumed that charities applied to non-profit making organisations in a wider sense and I have had one or 2 comments from sporting clubs, oddly enough, who are non-profit making organisations, relatively small organisations, where they have invested in facilities and have been caught by G.S.T. That is fine but within the spirit of what we were trying to do for the charitable side it was whether there was any scope within that review that could be taken into account and see if there is anything that can be done to address it in the

future. If we want to encourage sporting clubs to invest it does not make sense then to tax them for it.

**The Deputy Bailiff:**

Do you want to reply, Deputy Young? I am so sorry, the Connétable of St. John, you are just in time.

**1.5.4 The Connétable of St. John:**

Can I thank the Deputy for bringing this forward? As the former chairman of a local charity anything that can come extra into the coffers of that charity or any charity is very welcome.

**The Deputy Bailiff:**

Deputy Young, do you wish to reply?

**1.5.5 Deputy J.H. Young:**

I would like to thank Members who have spoken and thank the Minister for Treasury and Resources for his support and I ask for the appel.

**The Deputy Bailiff:**

The appel is called for. I invite Members to return to their seats. The vote is on paragraph (b) of amendment 4. Deputy Young, I ask the Greffier to open the voting.

| <b>POUR: 41</b>               | <b>CONTRE: 0</b> | <b>ABSTAIN: 0</b> |
|-------------------------------|------------------|-------------------|
| Senator P.F. Routier          |                  |                   |
| Senator P.F.C. Ozouf          |                  |                   |
| Senator S.C. Ferguson         |                  |                   |
| Senator A.J.H. Maclean        |                  |                   |
| Senator B.I. Le Marquand      |                  |                   |
| Senator F.du H. Le Gresley    |                  |                   |
| Senator I.J. Gorst            |                  |                   |
| Senator L.J. Farnham          |                  |                   |
| Connétable of Trinity         |                  |                   |
| Connétable of St. Lawrence    |                  |                   |
| Connétable of St. Mary        |                  |                   |
| Connétable of St. John        |                  |                   |
| Connétable of St. Ouen        |                  |                   |
| Connétable of St. Martin      |                  |                   |
| Connétable of St. Saviour     |                  |                   |
| Connétable of Grouville       |                  |                   |
| Deputy R.C. Duhamel (S)       |                  |                   |
| Deputy R.G. Le Hérisssier (S) |                  |                   |
| Deputy J.A. Martin (H)        |                  |                   |
| Deputy G.P. Southern (H)      |                  |                   |
| Deputy of St. Ouen            |                  |                   |
| Deputy of Grouville           |                  |                   |
| Deputy J.A.N. Le Fondré (L)   |                  |                   |
| Deputy of Trinity             |                  |                   |
| Deputy S.S.P.A. Power (B)     |                  |                   |
| Deputy S. Pitman (H)          |                  |                   |
| Deputy K.C. Lewis (S)         |                  |                   |
| Deputy M. Tadier (B)          |                  |                   |
| Deputy T.M. Pitman (H)        |                  |                   |
| Deputy E.J. Noel (L)          |                  |                   |



|                            |  |  |  |  |
|----------------------------|--|--|--|--|
| Deputy M.R. Higgins (H)    |  |  |  |  |
| Deputy A.K.F. Green (H)    |  |  |  |  |
| Deputy J.M. Maçon (S)      |  |  |  |  |
| Deputy G.C.L. Baudains (C) |  |  |  |  |
| Deputy of St. John         |  |  |  |  |
| Deputy J.H. Young (B)      |  |  |  |  |
| Deputy S.J. Pinel (C)      |  |  |  |  |
| Deputy of St. Mary         |  |  |  |  |
| Deputy of St. Martin       |  |  |  |  |
| Deputy R.G. Bryans (H)     |  |  |  |  |
| Deputy R.J. Rondel (H)     |  |  |  |  |

**1.6 Draft Budget Statement 2014 (P.122/2013) - fourth amendment (P.122/2013 Amd. (4)) - paragraphs (c) and (d)**

**The Deputy Bailiff:**

We come now to paragraph (c) and (d) of amendment 4, and I ask the Greffier to read them out.

**The Greffier of the States:**

After the words “as set out in the Budget statement” insert the words mortgage interest relief shall be extended for the year of assessment 2014 on loans for purposes other than the acquisition and extension of the taxpayer’s principal personal residence so that it is available for home improvement works and home energy efficiency measures carried out by local contractors subject to limits on loan interest eligible for these additional purposes, interest limits to be based on a loan of £30,000 for home improvements and a loan of £20,000 for energy efficiency measures; (d) health insurance premiums paid shall qualify for relief from income tax for the year of assessment 2014.”

**The Deputy Bailiff:**

Deputy Young, these amendments have been put together because they are both concerned with reliefs, therefore there is going to be one debate but I am sure Members would like to know whether you would like to take the vote separately because they are different matters. No doubt you will address that at some point. Would you like to make your proposition?

**1.6.1 Deputy J.H. Young:**

At the outset I will be asking for them to be voted separately but obviously as I will have to make them one I will first cover item (c) if I may. When I attended the Fiscal Policy Panel’s presentation and looked through their report, obviously it is a very helpful report for Members giving us an insight into the Budget proposal. I was struck that I felt that all of the attention on fiscal matters was what I would call the macro-issues, the big projects, the General Hospital project, housing, big capital injections to stimulate the economy. The overall message in here was we need to do that. I was struck that there was very little attention to fine-tuning again and that there were areas where I thought we could do things which would both benefit taxpayers and also benefit our local economy. Again when I started to research the practice on mortgage interest relief and the situation is that at the present time. This is a relief that marginal taxpayers only are eligible for. The purposes that that relief is given are quite specific, it is for acquiring, or a physical extension, of a main residence. This business of the physical extension is the point that I am asking to amend because it always struck me when this was introduced, a number of years ago, that was it really sustainable that works to add on to your building, by new extensions and so on, was tax relievable but where, if people did improvements to their building, particularly say refurbishment of historic buildings and others and bringing buildings back as habitable residences, because they were not doing physical extensions

and increasing the floor area, they could not get the tax relief. That struck me as unsustainable because the principle of sustainability is we live within our physical means and that means using our assets to best effect. Of course this is a pretty significant relief because looking at the figures circulated during the Medium-Term Financial Plan, at the moment taxpayers claim relief for £52 million worth of interest on mortgages. So that cost, at the moment, is about £14 million on my estimation at marginal tax rates. So what I seek to do is to broaden out the purposes for loan interest being allowed for marginal taxpayers. In my report I set out, on page 5, what sort of works would be included, which is building improvements, refurbishing to dwellings, including the installation of energy-saving measures, such as insulation, secondary glazing, loft insulation, solar panels and micro-generation, that is micro-electricity generation. Of course all these are matters that came strongly from the Minister for the Planning and Environment's Long-Term Energy Plan and it was clear in our work on the Environment Scrutiny Panel, that this was an area where there was a strong case for incentives. At the moment we have a grant regime, and I will come to that in a minute, but in terms of an incentive ... so the incentive I have proposed is to extend tax relief but not on an open-ended basis because obviously there has to be limits and there is a cost. So I have set some parameters and in this case, because the costs were, as it were, impossible to generate unless you know those parameters, the estimates here are my own and I have declared that to be the case because neither the Treasury nor the Income Tax were able to do that without me proposing these limits. The limit that I have suggested is that there would be a loan limit of £30,000 for minor improvements and £20,000 for energy conservation measures. The calculations that I have done on the costs are based on interest being paid at 5 per cent.

[15:15]

I had to obviously estimate the number of such schemes that might go ahead. There were 2 elements to this. The starting point is there are 40,000 dwellings in Jersey of which 22,500 are owner occupied and around about 1,000 building works are done every year from the planning system. Let us say 75 per cent of those are small-scale works. That, if one works that out, if we had an incentive that encouraged 750 minor projects of £30,000 that would produce an economic stimulus into the economy of £22.5 million and that would all go to our local industry. So it is work that needs doing and I could see that this would have an effect not only giving the taxpayer advantage but also give local economic stimulus. I should say at this point one of the strange things that I was puzzled about is that at the moment tax relief on mortgage interest is not subject to any limits if it is for buy-to-let. So if you buy a property and let it out, buy-to-let interest is allowed in full. No limits. No £300,000 cap: in full. So I thought: "Well, here is an example of an anomaly that we should address", by a modest extension of allowing tax relief on these refurbishments. On the second part, which is energy conservation measures, my parameters were a little bit different. The Minister for Planning and Environment has set us the target of improving energy conservation measures to 1,000 homes and 6,300 by 2020. That is his target and so I adopted that target. In hindsight I realised that was too ambitious because I checked up in the U.K. and I think I put some figures in the little leaflet I circulated around to you, pages 4 and 5, and there I find that they have been going at this in the U.K. for a little bit longer and only 266,000 properties have been subject to these energy measures in the U.K. by September 2013, and of course there are 20 million houses in the U.K. which means it is about 1 per cent. If you apply 1 per cent to our dwellings you get about 400 or 200 if it is owner-occupied. I only think it is about 250 and 400. So I think my estimates are high. So if I had the benefit of hindsight I would personally reduce my estimates down to 125,000 and 200,000 making 325,000 but obviously the report does not say that. My revision is based on the statistics that are shown on pages 4 and 5 in the handout that I gave. Now, I have asked myself, why is this opposed? I was very grateful that I did not get "strongly opposed" of the 3 ratings, accepted, opposed and strongly opposed. I was really relieved at this. It says: "The proposal would be better dealt with under a grant system." I am struggling with this. We, at the

moment, have a grant system where the vehicle emission duty of £1 million roughly a year is allocated to the Minister for Planning and Environment's budget and he spends it on doing this type of work for homes of low income earners. Of course there is nothing in the arena for middle Jersey. If you have had a chance to read the Scrutiny Report, which you probably may not have, you will see there that the experience elsewhere shows that unless there are some incentives, nothing is going to happen. There is no question that the majority of energy wastage - and it is not just an environmental thing, it is a money thing as well - is really coming from people's home which do not meet proper insulation energy conservation standards. When I tried to work out what would be the cost of the grant scheme I think it would be much higher than providing a tax benefit. Then we see, and I was really quite staggered about this, it says: "The tax system should not be encouraging people to take on debt." I thought: "Is this the same Minister for Treasury and Resources that has proposed bringing forward housing, £250 million and so on, for housing and so on?" I thought: "Do not do as I do but do as I say". So I think there is nothing wrong with investment, people borrowing for personal investment. It then says: "Why do we not support it because it only benefits those individuals with a capacity to borrow?" Well, I cannot wave the magic wand here. That is the whole thing about borrowing. It has to be economically viable. You have to have the means of making a saving and in the case of this type of work the saving comes from the energy gains, which benefits the Island and the person's own pocket. It is said that I have not clearly defined it. Well, again, have I got to write the rules. That is my submission on amendment (c) which is about mortgage tax relief. If I may just refer to my report and see what we ended up with the cost ... yes, £585,000 I put in my report. I believe that is too high a figure and I believe that figure would be more like £325,000. Moving on now, if I may, to item (d). This is obviously very much a different rationale, health insurance premiums. This is not about economic stimulus at all. It is about recognising that the cost of meeting the healthcare of communities is open-ended. It is a brave society that says: "Do not worry, we can provide for all people's healthcare needs from taxpayers and we can have a universal free-for-all service." I say, praise to the Minister for Health and Social Services, we have got that commitment and the House signed up to it within the Health Policy Report. That is what we have said: "That we are going to produce a sustainable long-term basis for providing our secondary healthcare." Having worked in the health service as a manager for 4 years in the past I would not put State money on it. Because, if you look at the driving forces for health care, medical technology is constantly increasing, costs of drugs, that leads to new equipment, more demands. Public expectations about the standards of health care are constantly rising and only going one way and, of course, people are, as a result of that, enjoying longer lives. It is great that it is because my parents died a good number of years ago and if they were living in today's times they would be alive, I feel sure. So the medical world is a victim of its own success in financial terms because they do so well and the costs only increase. So when this issue of private health care comes up there are 2 views and I know these views very well. The first view says: "Private health care should not exist. All health care should come out of the State and there should be no queue jumping." Probably before I worked in the health service I had that view but after I had worked in the health service and being part of a management team managing a private health service unit and becoming involved with working with private hospitals elsewhere and health insurers I formed the view that private health care has a number of benefits for the State. Firstly, it takes people out of having to use the tax system so that those people who have got the economic ability to be able to pay themselves, in addition to what they are already paying for tax for health care for the community, they will not be calling upon the public service for those costs. Secondly, there is the opportunity that if State health facilities are used by private patients then if people get their sums right; they are managed properly; rates are set properly; agreements with the health insurers are soundly based and the deals with the doctors are soundly based too then it is possible not just to make a recovery of direct costs, for example operating theatre time, drugs, the bed charge, *et cetera* - it is sometimes known as the hotel charge in hospital parlance - it is then

possible to make a recovery of overheads if one does that. I submit that that is an important dilution that we should not turn our back on and so this case is based on the benefits of encouraging private health care outweighing the costs. When I look at the Health Service White Paper, although I cannot find any local statistics to prove this, the Health Service White Paper that we signed up to says that: "50 per cent of people in Jersey have private health care provision." It has always puzzled me why people do not use that all the time. There are many cases where you find people have got private health insurance and they do not use it. They just go through the usual route. I have done that myself. I do not think in Jersey we exploit that enough. So the case is based on having an additional facility that dilutes public costs. One anomaly is that we encourage people, who are in employment, by giving them a tax-free benefit already for those that have premiums paid by their employers and yet for those people, usually retired people, that have to pay the premiums themselves obviously have to be taxed on it. That does not seem fair, right or equitable but, of course, it is those retired people as well, and we have all seen the emails which are right, from the pensioner group, that there is no question, when you get towards advancing years the health insurance companies really rack the premiums up. I have lost count of the number of people who have said to me: "Should I keep this going? Should I keep this premium going?" and I have said: "Absolutely, yes." Who can put their hand on their heart and say what is going to happen in the future? So we have got these anomalies with the treatment of what is called a benefit in kind. It is on the exemption list for the income tax: "Benefits in kind on health premiums is not taxed", and yet ordinary taxpayers are. The kind of figures that I can come up to try and justify it ... I have put in there a backup paper which is all that I can find. I can apologise, all it is is page 3 in the little bundle of stuff. In there I have drawn some comparison. I have used U.K. figures only to represent the scale of this. Despite all their economic difficulties, in the U.K. it is 11 per cent of people and it is declining now, as a result of economic circumstances, to 3 million employees and one million individuals. The amount of money going into the private healthcare system is £5,000 million and round about £500 million goes into the U.K. N.H.S. (National Health Service). In Jersey the closest I could come ... I looked up the 2012 accounts and I was trying to identify the amount of income that we get from private patients in our own hospital and I could not locate the figure but there was a figure of £17 million income arising from hospital services under that cost heading which I believe to be related to private patients. So my case is based on that this is a sensible long-term plan. This used to be the practice until very recently and it was phased out, almost as a kind of sleight of hand. I will withdraw that. It was unnoticed that as a result of 20 Means 20 we were removing the allowance for health insurance premiums for everybody, full stop.

[15:30]

I think that will prove, unless we put it right, to be a retrograde step because it can and will make, a contribution towards helping us meet the cost of our health care in the future. Every question time we hear about waiting lists, about the long demands. It is wonderful that we will get a new hospital, we need it, but can we be sure that we are going to be able to meet every demand that comes? I do not think so. So there is an issue of principle there. It is probably the most material item on my list. The estimates are the Income Tax Department's. I cannot challenge those and so I make proposition (c) and (d).

**The Deputy Bailiff:**

Is the amendment seconded? **[Seconded]**

**1.6.2 Senator P.F.C. Ozouf:**

The world has been, in recent years, dominated by discussions about definitions of tax evasion, aggressive tax avoidance and abusive tax avoidance. The reality is that parliaments, media in the U.K. and elsewhere around the world have to come to terms with these issues because of the

massive complexities of tax systems, particularly the U.K. Tax Codes. I am not saying that in any way any Member of this Assembly were to do it, I am not saying that Deputy Young is proposing, but the reality is that when you have got very high tax rates, such as you have in the U.K., politicians are tempted to make short-term measures, they want to tinker with the tax system in order to try and please voters to almost populous policies. Fortunately, we are not in the position of having to tinker with our tax system. We have a low, broad and simple system and that is for income tax, lower taxpayers and everybody else. The reality is that for tax authority's well-intentioned additional allowances ... Deputy Young has criticised us for not being able to put legislation into effect. I am afraid even if Members want to agree with this amendment we cannot magic up a piece of tax law which is going to be effective quickly. We are going to have to think about it and even then the Tax Department is inevitably going to be faced with interpretation and people who are going to try and literally use the allowance for avoidance, even aggressive avoidance purposes. We do not want to see, in my view, that sort of opportunity arising in Jersey. I am afraid to say that if we do allow, therefore, extensions on the interest that you can offset ... it is a curious thing, perhaps, to do so when interest rates are so low. I have to say to Deputy Young he is not going to get away with saying there is an inconsistency with my borrowing proposal for the Jersey Housing Company and individuals. The proposal for borrowing for the Jersey Housing Company is responsible investment in social housing and I am not proposing any sort of debt fuelling for individuals. The only proposal that we have ever proposed is the lending of a deposit to allow people to get into home ownership because deposit rates and lending rates have reduced. We do not, and we should not, allow ourselves to put in place complex and avoidable arrangements. The tax system does have some latitude to extend a mortgage if you are a marginal taxpayer because it allows for home extensions, an additional bedroom, a dependent relative unit would be able to be added to mortgage interest tax relief and probably it would be wrong not to have a debate about mortgage interest tax relief to reflect that you would not probably start where you are starting now with mortgage interest tax relief. It has been taken away for higher rate taxpayers, 20 Means 20 taxpayers. It is a relic of the past that we have it for margin taxpayers. You cannot take it away. I accept that. I will be absolutely candid, Members will understand that it is being effectively withered on the vine by not increasing the 300,000 because even I think ... Deputy Southern, he is nodding to me and I may get some agreement with him that well-intentioned mortgage interest tax relief, as it is, ultimately just simply boosts house prices. That is the reality of why any tax economist around the world has basically said: "It is good for short-term. There is a lot of concern about what the U.K. is doing in debt fuelling but ultimately you are fuelling the housing market. It is the wrong thing to do." Our housing market is probably higher by the factor exactly of the amount of tax that we did not. Ultimately home buyers do not benefit. What Deputy Young is doing is proposing a complication on something that ought probably not to be ... well, if we had our time again we probably would not introduce it. That is not to say that this is a debate about not encouraging energy efficiency. Absolutely not. What we are saying is we should not be using the tax system to effectively try and get people to think of energy efficiency. We do care about energy efficiency. The reality is that we do not have, again, the same problems of other places in the U.K. with soaring electricity prices. We are seeing some energy costs but we have not seen anything like the kind of electricity cost increases of other places and we are not expecting to see them in the next couple of years, which is a positive thing for Islanders. There may well be an issue in relation to fuel oil but that is an issue which the J.C.O.A. (Jersey Compliance Officers Association) is looking at. The reality is that you should not use the tax system. Putting in energy efficiency measures saves money and they almost should stand alone by themselves. I say "almost" because while I am saying that I am in favour of energy efficiency and people should be encouraged to do it, we should not be using the tax system. As I look across to the Minister for Planning and Environment, who may or may not be speaking in this debate, he of course has the resources to help foster and target energy efficiency improvements to those individuals who might need the nudge into helping them

do it, not using the tax system but the Planning and Environment Department has £1 million a year. Former Senator Cohen was remarkably successful in kick-starting this initiative. There are hundreds of pensioner households that have been benefiting from energy efficiency measures. I am told that there are pensioner households that have more loft insulation and radiator valves and new boilers than even they knew was good for them but the reality is that it has worked and now the energy efficiency grant of £1 million is not being taken away. Now we have done all pensioner households, now we have done community halls and I understand there are some Parish Halls that have been assisted with energy efficiency, now the department can focus on other people. We have dealt with pensioners, old income groups and it can be extended. Now we have the benefit of the energy policy we can make further changes. So that is the right way of helping to deal with energy efficiencies. We should not be extending the tax system arrangements that will be available for abuse. How is the Tax Department going to deal with an increase in a loan and prove that it went for a home improvement or energy efficiency? How will it be? How will the Tax Department ensure that that money was spent on those issues? We are trying to cut administrative burdens not increase them. I do not want a Tax Department that has to be nosey and effectively ask intrusive questions about where money has been spent and having to ... it is just the wrong thing to do. The right approach is to use the energy grant system in order to foster people's decision. I will stand by the issue of not encouraging people to take unsustainable debt. Deputy Young, again has, if I may say, an inconsistency; he does not want to help some middle income people but he wants to help ... effectively, he wants to help middle Jersey but he only wants to help the people in middle Jersey that need to borrow for energy efficiency. He does not want to do anything for those middle Jersey people who would save and invest into energy efficiency. I am afraid there is a complete inconsistency in some of his arguments. I do not want to over-criticise him because I know that it is well-intentioned. Perhaps in listening to his remarks I must upgrade the opposition to "strongly oppose" because I just simply think he has not made the arguments and I am not saying that anything should be ... just because we say that it is "opposed" as to "strongly opposed", that does not mean to say that I am suggesting that in any way there should be any temptation for Members to vote in favour of it. There are some that are real die in the ditches for the Treasury. There are some that are just unwise and not the thing to do and this falls within that category. We are doing the right thing for energy efficiency through the £1 million grant. I am sure the Minister for Planning and Environment will say that is not enough but £1 million of taxpayers' money, now we have already dealt with pensioner and low income households, can be targeted to those people that Deputy Young wants to help. I have met Sir Nigel Broomfield, who is chairman of the Energy Trust. I am impressed with their work and I believe that they can deliver all the things that Deputy Young is trying to do without complicating the tax system. Yes, I agree that there is an opportunity for getting economic stimulus in more people spending money on energy improvements in their home. That is good economic stimulus and the Energy Efficient Service can help it. I believe Sir Nigel and his colleagues in the Energy Trust can help us do exactly that. So it is a "strongly opposed" if I may say. The tax relief on private health insurance is again one of those really difficult issues. I should make a declaration of interest. I have private health insurance. I choose to do it but would I do it because I have a tax benefit? Should I get a tax benefit for it? Again, I am afraid to say it is not right, he was not in the Assembly. I do not think it is fair to say or even hint, if I may say, for Deputy Young to say that there was a sleight of hand in relation to the health insurance premium withdrawal. There was no sleight of hand. It was absolutely clear. There are clear economic reasons why it should not have continued effectively for higher rate taxpayers as, I am afraid to say, a lifestyle choice because it is 20 per cent taxpayers that are on high incomes, as we have seen. I have sent Members an analysis of all those examples of where the standard rate taxpayer comes in and it is very high. Oddly, the health insurance premium that was withdrawn was not available previously to marginal tax rate payers, I understand. I did not recall that but that is one of those bizarre things that are simply inexplicable. Again, perhaps it is a function of a

tinkering of the tax system that simply does not work. This is expensive. This is really expensive. It is a really expensive tax cut for people on incomes that choose to afford to get private health care. The debate that we had at the Council of Ministers, and that I have had with a number of colleagues, has been; if you had this amount of money what would you do with it in terms of the healthcare service? Would you give it to a tax cut, to people like me and other people who, as a lifestyle choice, decide to get health insurance, or would you give it to our Minister for Health and Social Services to target a benefit. I know in the history of this Assembly we have had all sorts of debates and we have been criticised about targeting benefits. We have been criticised about TV licences and all these issues that you do not have universal benefits. The additional amount of people that will take out a private medical insurance policy - because this is where the debate is going to go - and those people are going to save the healthcare system money apparently. Are we going to tip that much more people into getting private health insurance and save the Minister for Health and Social Services the money? I doubt it. I doubt that there are going to be some. We have had letters from certain senior citizens, who are recently senior citizens, that are saying that the cost of their health insurance premiums is very high. Yes, of course they are. As you get older they are going to be much higher, but should we be giving people that are, effectively, on relatively secure incomes, a tax break so that they can continue with their private health insurance particularly when we are making such big investments in our healthcare system in the way that, later on in this debate, we are doing? The private health insurance premium was withdrawn for good reasons. The economic adviser calls it "dead weight" and he challenges us: "Will you really make that many more people take on health insurance?" It is an attractive thing to do. It sounds good. It is the kind of thing that we almost think we are at the voting button: "Oh, it is the right thing to do" but it is not just a short-term thing it is a year thing that is going to cost year in year out. I believe in the private sector. I believe in private health care if you can afford it but I do not think the tax system should be used to do it.

[15:45]

I urge Members, again, this one is definitely the private health insurance. If there is a debate, if there is an important issue which we are signalling, which we do not think is a good idea it is this one in terms of the private health insurance. It is not a good idea. It is not targeted and if we were going to spend this money frankly I would prefer to give it to the Minister for Health and Social Services. I urge Members to reject both parts of this proposition.

### **1.6.3 Senator A. Breckon:**

In a former life I am aware of a private healthcare scheme that was run at the Gas Works. It was not run by the company, it was run by the employees and from that, although I was not a member, I know that as people did get older then the premiums were an issue. I say that because as people are getting older then the possibility of calling on something that they might have paid in for years and had nothing out of, become greater but then there is a dilemma - which has been explained to us in a letter that was circulated through email through the Greffier - where a pensioner couple are paying £4,500 a year premium and want to continue but are finding this to be difficult in their circumstances. It is not about just giving to people who do not need it. It is about looking after people who have this need now and indeed were they to continue to pay then they would be entitled to benefits from that scheme which would be money which would come in to the health service. So although there is a cost, there is a benefit. I do not know if Deputy Young has considered taking this part of the proposition in 2 parts but I think that I would ask if the Deputy would consider that because I think there is certainly some merit, or perhaps more merit, in that.

### **The Deputy Bailiff:**

Senator, the Deputy has said he is going to take it ...

**Senator A. Breckon:**

I would ask Members to give that some consideration because I do know a number of elderly people who are in some of these schemes, not just the one I mentioned which was Western Provident Association, but there are others, Bupa, where people are struggling to pay premiums and if they are not in the best of health, it is a choice between a rock and a hard place because they want to continue because it gives them some comfort. As Senator Ozouf has said we do have an excellent health system but then if people make their own provision, that is on top of what we can provide and, as I say, does bring in some income. I just want to mention a couple of things about the mortgage interest relief on the things that Deputy Young suggested. Senator Ozouf has mentioned about using the tax system. It is exactly what the U.K. are about to do. At the moment there is an environment premium on utility bills and they are proposing that the customers will get about a £50 rebate and that will be picked up by the U.K. tax system. So that is an example, not very far away, of where it is being done. This has been discussed ... the Minister for Treasury and Resources is shaking his head but this is fact. This is what is going to happen. There has been publicity over this over the last few days. They are going to pick up this so that a lot of the work can continue where there are things that are being done for insulation and for energy improvements, it can continue and it is being done in the U.K. It has been done here not on the same scale

**Senator P.F.C. Ozouf:**

I do not wish to be argumentative at all but what the U.K. is proposing is indeed not using the tax system, they are proposing to take away some rebates on the investment in green energy and the obligation to provide low income families with lower fuel bills and using general taxation to pay for it, general tax revenues, not the taxation system. I am sure that he does not want to mislead but that is the reality.

**Senator A. Breckon:**

I think what the Minister for Treasury and Resources has just said is the same thing. It is about using taxpayers' money to go in to fill a gap that is giving back to people, about £50 a consumer, because of this energy or environment or green tax, or whatever it was, a green charge. So that is that. There is an example of that being done elsewhere and we do have a fund and it is right it has made some significant differences to people and long may it continue but I think what Deputy Young is proposing here is different and it is if people make the choice. They might have bought a house 40 years ago that needs upgrading and it would be a way of doing that and it would not be a major borrowing and the security would be in the equity of the property so I think it is fairly straightforward. I do not think it is a complicated tax issue. I think the Minister for Treasury and Resources has over-egged the pudding here and the same about regulations for private health care is something that I think can be done and it would benefit people and it would give some comfort to those who are perhaps getting on in years and have been in these schemes. If other people, of a younger age, can be encouraged to join and to have premiums and to pay that, that would obviously be at a lower rate, so the tax relief would not be great and it is something that was taken away under the ... a lot of this happened under the 20 Means 20. I do not remember having a substantial debate on this issue and I congratulate Deputy Young on 2 counts, one for the handout that he has given, which I think is very useful. It gives some good information on page 3 of that. I think what he is trying to do is worthwhile on both counts and I will ask Members to consider carefully whether or not they support it.

**1.6.4 Deputy R.C. Duhamel of St. Saviour:**

There is definitely no doubt that Deputy Young's heart is in the right place in suggesting some of these things but I think he is not quite going about it in the right way in some respects. There is also no doubt that in my Energy Report, that is due to come to the House early in the new year,



hopefully to be supported by everybody, that it is very clear that in order to make the sizable changes to carry out our climate change and other responsibilities there is going to have to be a step-change in the way we consider our home improvements, our homes, the way we live and indeed the way we use resources. It is also absolutely clear that in order to make these very large step changes sizeable sums of monies are going to have to be spent. Then we get to the difficult decision because it is obviously better, in most people's minds, if we are trying to minimise tax bills that it is not just tax monies that are used and it is perhaps better that we use our own monies. The question in my mind is how do we square this particular circle in trying to do something that needs to be done in order to get the step-change so that we can move towards more efficient houses and less wasteful electrical and other energy appliances while at the same time not just placing the whole of the burden on to those who are more fortunate among us to be paying tax at a higher rate. I think the mortgage interest relief route is not the right one. I think the reasons for not using it are fairly well rehearsed. We have been, over the last number of years, removing and dismantling the mortgage interest relief system and it seems fundamentally wrong, in my mind, to be going backwards to reintroduce it if in doing so the monies that would be raised would not be sufficient to carry out the work or encourage the work to be undertaken at the level that it needs to be encouraged. That is my difficulty. Although we have heard from the Minister for Treasury and Resources that in his view the better route is a grant system, I think it is not just grants and it is not just mortgage interest relief. I think there are other alternatives which would encourage the uptake of this technology at a much faster pace without having to go to those 2 ends of the spectrum to deliver. I do not want to get too bogged down in terms of what this other method might be but, needless to say, I should whet people's appetites or at least tell them what is in my mind, as I have done on other occasions, and that is to progressively encourage people to go for collective purchase schemes. Collective purchasing is something that is becoming more and more prevalent and in essence, what it does is allow all of the aims and aspirations of a large number of people to band together and to negotiate deep discounts on larger orders that would otherwise not arise if indeed those orders were to be placed singly or in smaller numbers. When I am thinking of the collective discounts, that I have looked into, discounts can be achieved of up to 60 per cent and even greater providing the orders are placed in big enough quantities. I cast my mind back to when this House decided, wrongly in my view, in wanting to move to assist the Education president of the time, to purchase computers for our youngsters at schools and we did not employ collective purchasing ideas in any regard and we allowed the orders to be effectively watered down into small numbers and the results are plain to see. We ended up not in negotiating the cheapest prices for bulk discounts that we could have done for our youngsters. We did not order enough computer equipment in order to spearhead, in a way that we are looking at again, moves into the digital economy and computing in a way that was able to take advantage of the technologies that were being spoken about and employed in other places. More importantly we did not take advantage, through collective purchasing, in the ability of placing an order with a large enough computer supplier which would have guaranteed the longevity of the equipment and certainly would have given us an opportunity to sort out maintenance and redundancy in the equipment itself. All these things are possible if we achieve a mind-shift towards taking up what, in effect, is going to become a standard or more standard way of delivering collective benefits across a wider number of people. I am supportive of the general thrust of the idea, obviously, from the energy side of it, of improving our homes and achieving home energy and indeed that is what my Energy Policy suggests but to do it through mortgage interest relief will not deliver the sizeable benefits in order to encourage behavioural change at a level to deliver the very things that all would agree are important. So I cannot support, unfortunately, (c). However, when it comes to (d) I think again Deputy Young has referred to a sensible issue and something that really should be warranting a better class of debate than we have had so far. People may judge us on what I said; whether or not I have added to or taken away from the debate, but I am going to say what I am going to say anyway. His third

paragraph really needs to be read out again for the public to hear as well as to remind ourselves of what the Deputy is saying. He says, in making his argument: “For decades successive Governments, both elsewhere and in Jersey, have used tax relief on premiums to encourage citizens to take out health insurance [true fact]. The merits are obvious [absolutely]. Policyholders and their families, who are already paying for the public health system through their taxes, can get access to private medical facilities. In doing so this reduces pressure on a public health system that has a limited capacity to deliver the health services required. [Absolutely hitting the nail on the head.] If private health services are also provided within our own hospital the public costs can be significantly reduced by a direct recovery of direct costs and the share of overhead costs.” This House has yet to consider, in this debate, how much we are going to set aside and how we are going to find monies in order to pay for a new health system. We are already hearing about other things that are coming forward in the health related fields, in terms of long-term care, which again is a health service.

[16:00]

It is absolutely clear to me that, if indeed there is a shortfall in the monies that this House can find from direct taxation, that anything that can be done to encourage the uptake or the offsetting of taxation monies into services through the individual paying through an insurance scheme to pay for them in a way that does not draw down on an already hard pressed taxation pot of monies then it must be something that is well worth considering. My only disappointment with Deputy Young’s proposition is that unfortunately - and it probably was not within his remit to do it or ability to do it - he has not quantified the exact amount of monies that could be offset through encouraging the tax relief on the health insurance premiums that he is suggesting should be undertaken. I think, though, we can be sure that it is not going to be a negative sum. It is not going to be a small sum, it is quite likely to be a very large sum and my only disappointment is that, perhaps, further assistance could have been made to the departments involved to assist the Deputy in making the case. I think had he done that I think - I do not know what is going to be said after I have finished - then perhaps the debate would have been or might have been a little bit more clear-cut. Certainly I think, in terms of what is being suggested, providing tax relief on private health insurance premiums is something that this House should consider in terms of the total package of funding that will be required to fund all of our health services. I think in those terms that (d) is probably supportable.

#### **1.6.5 Deputy G.P. Southern:**

I will try and be brief. I have heard some strange arguments deployed in the House over the years, spurious arguments sounding like Ministers just wanting to object to a Back-Bencher’s proposal for its own sake. I think today has taken the biscuit. We had this vision presented by the Minister for Treasury and Resources that immediately when we gave some tax relief on home improvements, or on green initiatives, energy saving, on people’s houses that they would be rubbing their hands together and saying: “What a wonderful opportunity for tax avoidance.” That is what appeared to be said. Whereas, of course, that is the furthest thing for most people and they went on to say: “How would the Income Tax Comptroller know it was spent?” I think there is a simple answer to that, it is: simply ask for the bills. “Here is what I am claiming, here is what I spent.” There you go, boom, boom, done. So this prospect that we are going to have an outbreak of tax avoidance, and he mentioned the word “aggressive tax avoidance” over energy saving contracts and home improvements is just a non-starter. So that argument, I do not think, held any water whatsoever. He then moved on to the prospect of: “We should not be using the tax system to encourage these sorts of things”, these green initiatives. He painted this rosy picture that all pensioners are now living in cosy well-insulated homes and having no problems. The Parishes have been done and now we are moving on and expanding it so it should be a grand system. We have got £1 million in the pot for doing this sort of thing. I remind the Minister for Treasury and Resources that last year,

at a time when the Fiscal Policy Panel were saying: “We must get some more stimulus in the system in 2012”, he turned down the opportunity to put substantially more into a pot for green initiatives which could have been delivered now at this very time. So he painted this picture of all pensioners living in these cosy houses. It is not anything to do with reality. The fact is we have still got a lot of pensioners to do that for. There is still a lot of work to be done and the green initiative, the Energy Plan, is completely underfunded. It is underfunded because of opposition from the Minister for Treasury and Resources in previous years. Then he finally went on to suggest that any debt taken on under these circumstances was unsustainable debt and how are we going to prevent that. We will encourage unsustainable debt. I think the answer to that one is very easy. With or without some tax relief, from what you are borrowing, you go to your bank manager and you say: “Here is my income, here are my assets, this is what I intend to do, do you think this is sustainable?” and the bank manager goes: “Well, looking at what’s in your pot, yes, it is” or: “No, it is not. I would not be doing that. You need to save some more money.” So all these objections are suddenly raised because of Deputy Young’s proposals. I do not think if there was a risk of avoidance, aggressive avoidance or otherwise, then we have already got, as the Minister for Treasury and Resources has told us, many times, in the Income Tax Law we have got Article 134(a) which says that if the Comptroller senses that you are just doing something for tax avoidance, he can come along and say: “You cannot do that. No.” Ouch, put a line through it, it does not work. So we can deal with it anyway. So on those first 2, housing improvements and energy efficiency, green initiatives, I am totally behind what Deputy Young is doing and will be voting for. I am unsure about the health insurance. On that particular point I think I am in agreement, for once, with the Minister for Treasury and Resources.

#### **1.6.6 Deputy M. Tadier:**

I think this is one where, certainly, the principle of it is, hopefully, supported by many of us but there may be parts of the detail which are more problematic. I think it is important to say that clearly a lot more does need to be done when it comes to energy efficiency. I can give an example of constituents in St. Brelade, who were very grateful, an elderly couple who live in a particularly draughty and not very well-insulated house. They had help, got a brand new boiler installed for them, which is more energy efficient. They have also got problems with their walls because they are single block and when the team from Eco-Active, or whatever it is, came around they said: “We would like to put insulation in your walls but unfortunately you have got cracks in your outside walls which are letting the water in and the cold so you have to go and get them fixed first before we can help you insulate your property.” Clearly, the cracks were the most urgent because that is how the draughts, the cold and the wet were getting in and they could not afford to do it themselves. Whether or not this would be resolved by what Deputy Young is proposing is unclear but certainly it does seem to suggest we need a lot more flexibility in our Eco-Active scheme if people are falling through the cracks, for want of a better expression. So I think there is a lot to be said first with the argument. To say, blanket, that we cannot use the tax system to encourage people to make the right choices to do with energy efficiency, I would ask why? Surely we should be using whatever tools are effective and necessary to affect behavioural change where we want it to be seen, albeit in a transitional phase. I would also suspect that it is a win-win because if it turns out that nobody, as a result of adopting this, does take advantage of the system and we get no new people coming forward then it will not cost the taxman any money because no one will be using it. However if, on the other hand, enough people are spurred on to do the right thing and say: “Well, we need to take a loan out to get this work done” and it is just the added incentive which we needed to encourage us and that, surely, is going to be a good thing and it will be evidence that the right behavioural change has taken place. I note it is also for one year. Deputy Young has not said to the Minister for Planning and Environment and to the others involved: “We do not want you to carry on working on this issue.” It simply says: “That in the absence of you having brought forward a

package which is necessarily here now”, and it is going to be rolled out, we have got promises coming forward saying: “That is all right we are bringing it forward, just wait a little bit longer”, and Deputy Young saying: “Well, we need to do something in the meantime which is going to help individuals take their own initiative.” I think that is to be commended and applauded. The concern I do have though, unfortunately, is that the wording has been banded together with this slightly more vague £30,000 per home improvement. That could mean anything; that is the issue. So you could quite validly say: “I need to get this wall insulated and that is going to cost me X amount of money.” Fine, get some double glazing put in, that would have a tangible environmental benefit and energy saving going forward but you also might want to say: “I need to get a swimming pool put in”, that is going to be a home improvement. The swimming pool clearly will not be energy efficient. It will be moving in the other direction to what we want to be doing as a community and it will be using and wasting energy and it would be very bizarre for us to be giving tax rebates on the building of a swimming pool. So I would like to hear if Deputy Young can respond to that. If there was a way to disentangle the 2 that would be welcome but I suspect it is something which should have been done earlier. There is an element of disappointment. I would like to know whether or not conversations were had between Deputy Young and the Treasury because clearly the intention is clear here but the detail may be conflicting. Certainly when it comes to health insurance relief I have to admit it is a strange day if I find myself agreeing with the words of the Minister for Treasury and Resources. It seems perverse to us that we should be encouraging people to take out health insurance, but clearly, depending on what one’s ideology is, for me I want to do everything I can to encourage people to make use of our centralised health system and to empower that centralised health system to have all the tools it needs and the funding that it needs. Clearly, there will be improvements to be made. If we have 50 per cent of people with private health insurance, that tends to suggest we do not need to do anything else to encourage or provide an incentive to the population. In fact, we might need to do something to the reverse. Economic factors may change in the future. It does beg the question should we be giving interest relief to private school fees as well? You are paying money. You are a taxpayer but you are also choosing to pay for private school tuition. Is the next step then to give that interest relief to those in the private sector? For me, it does not follow so I certainly will not be supporting part (d).

#### **1.6.7 Deputy J.A.N. Le Fondré:**

I wanted to pick up a couple of points. I suppose, firstly, on part (c) on the mortgage interest side, I start off by saying, which may not be the first thought that springs to people’s minds, I quite like the Tax Department. I think they are one of the most professional bunch of people I have encountered for a long time. They are friendly, believe it or not, and the public may disagree, and I find them very professional in what they do. If you have a problem and you go and talk to them, they will normally try to do their best to sort you out. The reason I say that is because in the nicest possible way the Tax Department is intrusive. It is like Social Security. It knows a lot about your personal details. When the Minister for Treasury and Resources made a comment about: “Do you want the Tax Department to be intrusive?” they are already. As I said, in the nicest possible way I think they are a very professional bunch of people but they have to be because that is the nature of what they do. In the same way, if they do an analysis on repairs and maintenance they ask for a copy of the bills. If you have a rental property and you have repairs and maintenance, they want to know - either you supply or have available - the bills on the significant items. So from the point of view of an analysis of how bureaucratic this is going to be, it is not going to be any different to what is already in place. The other observation I make is that the tax system should not encourage people to take on debt for tax advantage, and Senator Ozouf has correctly said that essentially mortgage interest on the acquisition of properties - and I think he said extensions - is going to wither on the vine. That is fine, but whether people appreciated that when it was brought into the equation I am not entirely clear. I do not disagree with it. I have thought in the past that if you are

going to do it, now would be the best time. Interest rates are at an all-time low and if it does distort the housing market, if it does keep prices artificially high, why are we keeping the prices artificially high on one hand and trying to help people to buy houses at an artificially high rate?

[16:15]

If one is just going to let it wither on the vine, why not bite the bullet and just say perhaps for new mortgages: "We are going to tell people that in 5 years' time we are going to stop doing it." You cannot touch existing people. They have a 20-year mortgage or a 25-year mortgage. They are committed; that is going to go down. But if it is going to wither, it is never going to increase. At a time of the lowest interest rates in history for the last 3 years, why have we not grasped that nettle? It is a politically difficult decision but that is what we are here to do. I am trying to talk about clarity. So, having put all that together, my view on this adjustment is on the basis at the moment we do encourage mortgage interest. It is still there. It is still available. Yes, it is capped. What was the problem with it? If we are trying to encourage the use of an extension of energy efficiency or even a minor fiscal stimulus to help the local suppliers and that side of the market, I could not really see a big issue in doing this. If one is going to turn around and say: "We are getting rid of mortgage interest; therefore, it is inconsistent," fine, but I do not see this as being inconsistent with what we are already doing. What I was going to talk about more broadly is on the private health side. I am definitely minded to be supporting that one. I have probably listened to part (c) a bit more - I might well support that as well - but part (d) I am definitely supporting. The way I look at it is there used to be an ethos in my view in the tax system that there was always a bit of money that the tax man was never entitled to. That is why you have personal allowances and that is in a way why we had the child allowance because it was a recognition that there were certain things that people did. It did not matter what they earned, there was an expense there, and it was a bit of a token gesture. It was a token recognition that the tax man recognised and, therefore, you had some form of allowance regarding that area. That has changed. That has completely changed under where we are. The tax system has tightened up. People say that is right. There are 2 threads to this argument. This particular thread is when I first stood and 20 Means 20 came in and Zero/Ten came in and G.S.T. came in, the other part of that equation was the savings we were going to make. That was one of the justifications for tightening up the system we have done. What has been very clear - we are now on the second and third round of savings - those first savings, I think it was meant to be £25 million that we were going to do in 2006, 2007, 2008. I might be a year out there. When somebody analysed it, a significant proportion of the savings were not real. There were things like rent increases in there. There were fee increases. There were all sorts of bits and pieces. I cannot remember the quotes. Senator Ferguson can no doubt remind me. I cannot even remember the percentages. A significant chunk was not regarded as real savings. As I said, a rent increase is not a saving, no way. We have obviously gone through that process again. We have the C.S.R. (Comprehensive Spending Review) and all that stuff. If you go even now to the back of the very recent Corporate Services Scrutiny Panel Report on the Budget which came out on Friday, there is reference there to the savings that are going through yet still. There are some savings that have been made, but it is salami slicing. Eight years down the line we are still not necessarily doing all the structural stuff that we should be doing. There are green shoots potentially next year, 8 years down the line after that promise that was made in 2005, in 2006, that we were going to do the savings, and that is why we are taking some of your allowances away. It was that partnership arrangement: you are going to pay more and we are going to pay more. The one consistent thing that has been happening in the last 3 years is that the size of the public sector is the one growth area in the economy. So that is one thread. That is partly me saying I want to be slightly hard-nosed about it: have we kept our bargain on one side, having taken away those allowances? Have we met our commitments elsewhere? In my view, and I am slightly hard-nosed about it, we have a lot further to go. The other side of it is kind of the intuitive one. It must surely be right that if we

encourage people to have private healthcare that that is not a cost to the budget of the hospital. In other words, it is a cost to the insurance company. It is certainly true. I have had the conversations with people. Just after retirement age or as they get older, the premiums suddenly start going up and that starts impacting on whether they are going to retain their health insurance policy or not. Intuitively, even if they keep it for another 2 or 3 years, they are starting to get the tax relief, which may be a token thing but it is recognition that there is an increased cost there, bearing in mind they are paying twice if they are a taxpayer. They are paying for the health service as it stands and then they are choosing to pay for the private health insurance. I do not particularly have a problem with that. I think I would like to see that incentivisation coming back. I would like to see us encourage people to take out private insurance because I think ultimately it must be a benefit overall to our net costs of providing a health service. That is obviously with the caveat of what Deputy Young was saying about getting the costing right and getting the pricing right. On that basis, I will definitely be supporting the health part of the amendment, which I think is part (d), and I hope other Members will do so as well.

#### **1.6.8 The Deputy of Trinity:**

I will be brief because I did not know for certain I was going to speak, but I will just put a few points about the medical health insurance. Deputy Young's proposition is very seductive and it sounds very easy that it would encourage people either to stay with their health insurance or to take up having health insurance. I need to say that I have a conflict because I do have health insurance. Private patient work is a good thing. As I said yesterday, it encourages good consultants to take up jobs here. The Deputy mentioned that income is about £17 million from the private patients. I would like to put him right that the figure is approximately half of that and it is full cost recovery now by financial directions. The question is: will this tax relief encourage more people to become insured or stay insured? I do not think it will. As Deputy Tadier said, does that mean that if you put your child through a fee-paying school we are going to give tax relief on that? It is down to the cost of health care. It is a big sum of money and health insurances will go up because of the cost of health care. We know the cost of health care will rise in the next few years because of the ageing population and that is a good thing because we are all living healthier and longer, but it does come at a price. Tax relief will not change the waiting lists, but the most important discussion and debate that we need to have is on sustainable funding for the future. Tax relief on medical insurance is just tinkering at the edges and it will not change a thing.

#### **1.6.9 The Deputy of St. Ouen:**

To pick up on a couple of points that the Minister for Health and Social Services has touched on. She says she does not think there is a difference. First of all, let us not forget, or remind ourselves, 50 per cent of our population is covered by private health insurance. That is huge. I do not think there is anywhere else in the world with that sort of coverage in private health insurance. We speak about our improvements in the health service. We speak about a new hospital. We do not know, I do not believe - I have not seen any evidence presented today certainly that shows us - what impact that has on our current services. How many of our population leave the Island to source health services elsewhere? How many make use of the health services on the Island? Indeed, how many do not use their private health insurance and enter the public system? That is information that should be readily available but it seems it is not. It is a bit disappointing when you read the comments, and perhaps Deputy Young is going to touch on this, of the Minister for Treasury and Resources on this particular matter, who says: "There is no clear factual evidence to indicate a decline in medical insurance being related to withdrawal of tax relief." That is information that should be gathered by the Health and Social Services Department, not by Deputy Young. If we had had a phased approach to reducing the relief available to the 20 Means 20 group with private health insurance, then we should be able to monitor it. We should be able to know whether the numbers

of people accessing private health on the Island and off-Island are the same or has changed. That is real information that enables any decisions about the size of hospitals, how many beds we need. Deputy Young is absolutely right and I think Senator Breckon touched on it. As people get older, the premiums increase. When they leave work, their incomes are limited. That is when they are going to be making the decisions whether to continue with their private health insurance or not. We talk about having a problem with an ageing population. That is a debate for another day. But if we have an increase in people over-65 and more of them are going to be wanting medical attention, then that is an issue. If they are currently provided for within the private service and are paying, that is alleviating some of the pressure on our health service, but we need to understand what that is. Regardless of what decisions are made around maintaining this programme, these are the facts and the matters that the Minister and the Council of Ministers must look at. It is the information that is essential, I would suggest, if we are to make decisions about our health service and hospitals. Regarding home improvements, we have heard about the grant and I cannot remember whether it is a 100 per cent grant or whether it is a 60 per cent grant, 70 per cent grant. Regardless of that, Deputy Young also has a point when he says if you provide an incentive for people to go and borrow the money, you have a multiplier effect. Maybe the Minister for Planning and Environment and the Minister for Treasury and Resources must revisit the grant system and look at whether or not they can increase the multiplier effect of the current system so we see more home improvements, less energy being utilised, more local industry, small businesses being supported who will carry out this work. That is the sort of thing that we want to do. We will keep the money in the Island, not write out big cheques to companies from the U.K and elsewhere who are going to come over and build hospitals and will not contribute to our economy. We want to help our local construction industry, the small businesses that we know exist on the Island who are struggling. Have we done anything? No. What do we do? We have the Minister for Treasury and Resources criticising a States Member because he has come up with what I believe is a pretty good idea. Perhaps it is not the right method, but do not shoot the messenger. Let us see some action. If we are going to commit to reducing our energy costs, let us do something about it. If we can utilise existing schemes and improve them so that they deliver more, let us do it.

**Deputy M. Tadier:**

May I just ask a point of order? It may or may not be in order, but I hope it is. I notice that some Members have already indicated whether they have private health insurance themselves and would be directly affected. Would it be appropriate for an indication of others before the vote happens?

**The Deputy Bailiff:**

Well, Deputy, I have already expressed the view that this is a matter of a general taxation measure and similar arguments could be applied to duty on alcohol or other matters. It is unnecessary, in my view, for Members to state their position in each case.

**Deputy M. Tadier:**

I will definitely declare an interest when it comes to alcohol but ...

**The Deputy Bailiff:**

Well, you do not need to.

**Deputy M. Tadier:**

... I cannot do so for private health insurance.

**The Deputy Bailiff:**

Does any other Member wish to speak? Then I call on Deputy Young to respond.

### 1.6.10 Deputy J.H. Young:

I thank all the Members who have spoken. I certainly feel that was a very good debate and the choices that are before us and the arguments on both sides have clearly been spelt out. This was important for this Assembly to do, not just rubberstamp voluminous documents, particularly on important matters that affect people's lives and affect the economy. I will try and pick up - it is a difficult thing to do because we were really having a discussion about 2 subjects - the points on the first part, if I can, with regard to the building improvements and energy conservation.

[16:30]

I very much saw the purpose of extending that tax relief, exactly as Deputy Reed has said, about an economic stimulus and our local small businesses. Looking to the future, we are looking to grow expertise in energy conservation work, in knowledge of the technologies, so that we can become much more expert at it. I think it's all there to play for, as it were. At the moment, there is a real struggle and one of the problems is that there are a number of firms, but there is not the universal knowledge of this high technology which gives such benefits. When I heard the comments about encouraging borrowing and unsustainable borrowing, I was putting forward really quite modest figures here: £30,000 for minor improvements and £20,000 for energy conservation work. I have written these as small beer, but nobody is going to borrow those sums of money unless there is a sustainable project at the back of it. We get this gearing, this multiplier effect. I seriously struggle with the arguments against, which more or less seemed to be summed up from the Minister for Treasury and Resources: this system of tax relief is dying on the vine so we might as well kill it off. I think that is very negative. We have £52 million worth of interest relief at the moment according to the figures, and that is providing important economic activity for people. I struggle with the distinction between people building extensions - and it is not just about housing an elderly relative, it is an extension for all sorts of purposes; it might even be an extension for a swimming pool, for example - the distinction between saying that is okay, but it is not okay to do basic improvements within an existing building that improves the quality of people's lives and particularly also gives a financial saving on energy conservation. I like very much the feel because I remember the debate on Deputy Southern's proposition about the green initiative, which was, a very mega proposal, a very substantial one. This is very modest stuff. This is small sums of money. We have heard it said the grant scheme will be better. If the Minister for Treasury and Resources was prepared here and now to say that he would meet the funding to allow the Minister for Planning and Environment to extend the excellent energy efficiency scheme which works very well for low income households, if he were to say that he would provide that funding, I would withdraw that part on that element. But obviously I have come with a package and I did not hear the Minister for Treasury and Resources say that he would do that. He just says he prefers a grant. I remember when the commitments came on the Scrutiny Panel. The Minister for Treasury and Resources said that he was supportive in principle but as always there is a "but". What I have tried to do is to come forward with a very positive, small-scale proposal. It is long term. Big trees from little acorns grow and that is the way I see it. There are complaints that the tax people are going to have to become - I think the Minister for Treasury and Resources used the word - nosy. I think they are excellent, our tax people. The efficiency of tax collection is top drawer. There are one or two isolated complaints which happen, but I think they are isolated. Generally, we have a very successful department there. But their job is to keep track of people. I expect them to check and ask for invoices and ask for detail. To me, that is part of their job. I cannot believe that the Minister for Treasury and Resources would say if we pass this it is going to be more staff, more resources to do that. I really find that a problem. I am really disappointed that my speech has resulted in me being upgraded. **[Laughter]** Upgraded from opposition to strongly opposed. I know sometimes I get misunderstood and I sometimes do not always get my logic right, but hopefully Members will feel that I have been able to explain it, but getting on the hoof a strong



opposition upgrade is really a bit harsh. **[Interruption]** It is all right, I am not feeling too brilliant at the moment. It has been said there is no detail of interpretation. I would expect the Income Tax Department to say: "Look, swimming pools are not in. Some houses are not in." I expected that if this House approves this, it is an approval in principle. It has to come back in legislation and all that kind of detail can be worked out to give a sensible scheme. I appreciate Deputy Duhamel. He made his views clear at the Scrutiny Panel that he did not favour incentives. Deputy Duhamel was in favour that altruism would lead to people doing energy conservation works. In other words, because it was the right thing to do, people would do it. I think all the evidence from elsewhere is they do need some encouragement. I like the idea - it is the first time I have heard it - from Deputy Duhamel about this collective purchase scheme. I think there is certainly mileage in that. That could be combined with this to get better value out of the sums of money. It is not an all or nothing. This is a component within a set of policies that Deputy Duhamel would be able to take forward and make sure that if we do provide relief, we get best value and it is well targeted so those fine details in the rules can be written. I think I have probably picked up the points on the first part. On the second part, I would like it to be a green budget. I would like us to come out of this Budget with a green commitment as well as the excellent other commitments that we have there. I would be very disappointed if Members do not come on board on that because I think it is very modest. I would like to shift now to health. I have to start with the Minister for Health and Social Services. I was really disappointed, I am sorry to say, with what the Minister for Health and Social Services had to tell us. Having worked within the health service myself, there is a moral issue, I suppose, that splits communities. It always has done, this issue of private healthcare. It is a choice between pragmatism and idealism. There is no question that in an ideal world we would be able to meet universal healthcare and everything would be fine. But it is not fine. If Members approved tomorrow the funding for a new hospital, we would have a new hospital, but does it stop there? Is that the answer? I found it, listening to it, really strange. The Minister for Health and Social Services is saying it is really important; it helps us recruit the good consultants. I know that. You will not recruit good consultants, the top consultants, unless you provide facilities or enable some arrangement for private healthcare and their contracts of employment provide for that. It is a question of the hospital management having to work that out to ensure we get good public practice, the right volumes of it, and at the same time enable private practice to happen. To me it was really inconsistent for the Minister for Health and Social Services to say we can shut our face to this, we do not need it. Then she said something, a comment, which basically said she expected the public to come up with the funding. We do not know what the forward running costs of this hospital are going to be. We absolutely do not so we are sailing into the unknown on that. If I was a hospital consultant and I listened to what was said from the Minister for Health and Social Services, I would be really worried about that. Because the answer must be health professionals working with the private sector, using it. I respect that people have an ideological view about that to the contrary. I respect that entirely. But to me you cannot make a pragmatic argument that does not recognise that private healthcare has a place. We know in the Minister's own consultation it was said that 50 per cent of people in Jersey are on private health insurance. It was said there is no evidence of decline. I have searched around for it. But we have all had letters and I have had letters from elderly pensioners and we have all seen it from pensioners' groups, and we all face that choice: are you going to keep these costs going indefinitely? There comes a point where you cannot, in which those costs definitely arise on to the public sector. I cannot quantify it. I was very disappointed. I did try and find out an accurate figure of how much money comes into our hospital from the private patient service. The Minister for Health and Social Services corrected me. Half, she says. Well, I would like to challenge the Minister for Health and Social Services to show me in the accounts where it is because in the old days when we had detailed accounts you could find the figures. In the 2012 figures all that is there is one figure, £17 million. If that is not the right figure, I would like to know but, even so, there is no question that in the long-term people committing to keep their

private health insurance going will produce savings. I cannot believe that the saving will be less than £2 million. Our hospital service at the moment on the accounts I looked at was about £107 million per year. £2 million a year, we are talking here. If you ask me to prove it, I cannot. We do not get the accounts in enough detail to be able to, but my past experience is that we should be doing that. I really would like to thank Members because whether you were for both sides of it or not or against it, I think it was a good debate and the issues have come out. I do not feel I have done justice to the comments but it is difficult. So, with that, I would ask for the appeals but ask for them to be taken separately please, Sir.

**The Deputy Bailiff:**

The appel is called for and I invite Members to return to their seats. The first vote is on the proposed amendment in relation to mortgage interest relief and I ask the Greffier to open the voting.

| <b>POUR: 16</b>             |  | <b>CONTRE: 29</b>             |  | <b>ABSTAIN: 0</b> |
|-----------------------------|--|-------------------------------|--|-------------------|
| Senator A. Breckon          |  | Senator P.F. Routier          |  |                   |
| Senator S.C. Ferguson       |  | Senator P.F.C. Ozouf          |  |                   |
| Senator L.J. Farnham        |  | Senator A.J.H. Maclean        |  |                   |
| Deputy J.A. Martin (H)      |  | Senator B.I. Le Marquand      |  |                   |
| Deputy G.P. Southern (H)    |  | Senator F.du H. Le Gresley    |  |                   |
| Deputy J.A. Hilton (H)      |  | Senator I.J. Gorst            |  |                   |
| Deputy J.A.N. Le Fondré (L) |  | Connétable of St. Helier      |  |                   |
| Deputy S.S.P.A. Power (B)   |  | Connétable of Trinity         |  |                   |
| Deputy S. Pitman (H)        |  | Connétable of St. Clement     |  |                   |
| Deputy M. Tadier (B)        |  | Connétable of St. Lawrence    |  |                   |
| Deputy T.M. Pitman (H)      |  | Connétable of St. Mary        |  |                   |
| Deputy M.R. Higgins (H)     |  | Connétable of St. Ouen        |  |                   |
| Deputy J.M. Maçon (S)       |  | Connétable of St. Brelade     |  |                   |
| Deputy G.C.L. Baudains (C)  |  | Connétable of St. Martin      |  |                   |
| Deputy J.H. Young (B)       |  | Connétable of St. Saviour     |  |                   |
| Deputy of St. Mary          |  | Connétable of Grouville       |  |                   |
|                             |  | Deputy R.C. Duhamel (S)       |  |                   |
|                             |  | Deputy R.G. Le Hérisssier (S) |  |                   |
|                             |  | Deputy of St. Ouen            |  |                   |
|                             |  | Deputy of Grouville           |  |                   |
|                             |  | Deputy of Trinity             |  |                   |
|                             |  | Deputy K.C. Lewis (S)         |  |                   |
|                             |  | Deputy E.J. Noel (L)          |  |                   |
|                             |  | Deputy A.K.F. Green (H)       |  |                   |
|                             |  | Deputy of St. John            |  |                   |
|                             |  | Deputy S.J. Pinel (C)         |  |                   |
|                             |  | Deputy of St. Martin          |  |                   |
|                             |  | Deputy R.G. Bryans (H)        |  |                   |
|                             |  | Deputy R.J. Rondel (H)        |  |                   |

**The Deputy Bailiff:**

I will ask the Greffier to reset the voting and to open the voting now in relation to paragraph (d) on health insurance premiums.

| <b>POUR: 21</b>       |  | <b>CONTRE: 25</b>    |  | <b>ABSTAIN: 0</b> |
|-----------------------|--|----------------------|--|-------------------|
| Senator A. Breckon    |  | Senator P.F. Routier |  |                   |
| Senator S.C. Ferguson |  | Senator P.F.C. Ozouf |  |                   |

|                             |  |                             |  |  |
|-----------------------------|--|-----------------------------|--|--|
| Senator L.J. Farnham        |  | Senator A.J.H. Maclean      |  |  |
| Connétable of St. Helier    |  | Senator B.I. Le Marquand    |  |  |
| Connétable of St. Clement   |  | Senator F. du H. Le Gresley |  |  |
| Connétable of St. John      |  | Senator I.J. Gorst          |  |  |
| Connétable of St. Saviour   |  | Connétable of Trinity       |  |  |
| Deputy R.C. Duhamel (S)     |  | Connétable of St. Lawrence  |  |  |
| Deputy R.G. Le Hérisier (S) |  | Connétable of St. Mary      |  |  |
| Deputy J.A. Martin (H)      |  | Connétable of St. Ouen      |  |  |
| Deputy of St. Ouen          |  | Connétable of St. Brelade   |  |  |
| Deputy of Grouville         |  | Connétable of St. Martin    |  |  |
| Deputy J.A.N. Le Fondré (L) |  | Connétable of Grouville     |  |  |
| Deputy S.S.P.A. Power (B)   |  | Deputy G.P. Southern (H)    |  |  |
| Deputy S. Pitman (H)        |  | Deputy J.A. Hilton (H)      |  |  |
| Deputy T.M. Pitman (H)      |  | Deputy of Trinity           |  |  |
| Deputy J.M. Maçon (S)       |  | Deputy K.C. Lewis (S)       |  |  |
| Deputy G.C.L. Baudains (C)  |  | Deputy M. Tadier (B)        |  |  |
| Deputy J.H. Young (B)       |  | Deputy E.J. Noel (L)        |  |  |
| Deputy of St. Mary          |  | Deputy M.R. Higgins (H)     |  |  |
| Deputy R.J. Rondel (H)      |  | Deputy A.K.F. Green (H)     |  |  |
|                             |  | Deputy of St. John          |  |  |
|                             |  | Deputy S.J. Pinel (C)       |  |  |
|                             |  | Deputy of St. Martin        |  |  |
|                             |  | Deputy R.G. Bryans (H)      |  |  |

## **1.7 Draft Budget Statement 2014 (P.122/2013): fifth amendment (P.122/2013 Amd.(5))**

### **The Deputy Bailiff:**

We now come to amendment number 5 which has been lodged by Deputy Southern and I ask the Greffier to read the amendment.

### **The Greffier of the States:**

Page 2, paragraph (a), after the words “as set out in the Budget Statement”, insert the words “except that the age of entitlement for single, married persons and civil partners to the higher income tax exemption threshold shall not be increased for the year of assessment 2014 from 63 years to 65 years as proposed in the Budget Statement.”

#### **1.7.1 Deputy G.P. Southern:**

The last leg before we get on to the fun of impôts duties. Firstly, I have to declare interest because people might not recognise it but I am 63. **[Laughter]**

[16:45]

I was reading through the Budget proposals when I came across this bit and it suddenly struck me: “Hang on, that applies to me.” So I do declare an interest but there are 2,200 of us.

### **The Deputy Bailiff:**

The same ruling applies. These are general taxation matters and, frankly, I do not expect members of the public to think that States Members will vote for or against a particular measure because of their own personal exposure to some tax or duty of some sort.

#### **Deputy G.P. Southern:**

Absolutely, Sir and I recognise that because I had examined - as we all could when we get to 63 - the possibility of taking my pension early. I looked at that and decided quickly that I was not going to bother because I would lose 10 per cent of my pension for each year that I took it so it is not strictly necessary. I will wait until 65. But, nonetheless, the rules are that you can take your pension from the age of 63 if you wish to. That is the way the pension system works and, yet, as I looked at this proposal, I recognised, as I say in my statement, the whole argument - well, there was not an argument - the whole premise was simply made in 2 paragraphs. Not a word of analysis, justification, argument or rationale around it. It was just: "We have decided last year in 2013 in last year's Budget that we were going to make this change. We are going to stick it to 65." They have done that this year and made absolutely no reason for doing so apart from: "Because we can." It says in the comments of the Minister for Treasury and Resources: "It is considered that to delay the Budget proposition to 2025 or 2031 is not valid or relevant to the aim it intends to achieve." The aim of this move: "The aim and intention of the Budget proposition is to place at this time the enhanced exemption limit in line with the States pension age of 65." So it is a piece of gardening. A piece of tidying-up. We have got this particular approval from him who says you can have an extra exemption when you get to 63 and it is linked to the fact that you could apply for your pension when you are 63. Now we all know that the pension age is going up and that we are all getting older *et cetera* but this particular measure is not justified by the ageing population, at all. It just says: "Because we decided 65 is the pension age properly and that is what we are going to do." Conveniently, in a giveaway Budget which says: "We are trying to put money into the pockets of people so they can spend it in the economy and get us out of recession", for these 2,200 people, this enhanced provision will be taken away. "So we are going to take a bit more money from you in terms of income tax because we will not give you this exemption." It is completely illogical in the sense of does it fit with the stated intention of the Minister for Treasury and Resources to increase the amount of money in people's pockets and thereby in the economy? Those 2 dates that I gave, some Members will remember, is the timescale by which we are raising the pension age. It is a very difficult thing to start messing around with pensions because people have got a lot of investment in them. But the pension age will rise, we have decided, to 66 in 2025, to 67 by 2031. As far as this provision that you can technically claim your pension 2 years early, that is intended to be maintained so the Minister for Social Security says here: "It will continue to be possible to claim a reduced pension for up to 2 years before the States pension age." It then goes to say they might look at measures to enhance the pension. So that 2-year gap is going to remain. Eventually, in 2025 and 2031, it is going to move to 67 and 65. Is there any reason to act now apart from a bit of gardening, a bit of tidying up? Absolutely no reason given except that those people aged 63 and 64 in the next couple of years and then going on will be something like £150 worse off than they would otherwise have been with this exemption. No reason to do it apart from: "We simply can and that is what we intend." I believe that is inconsistent with the rest of the messages coming from this particular Budget and, therefore, I make the proposition.

### **The Deputy Bailiff:**

**[Seconded]** Does any Member wish to speak? Senator Le Gresley.

### **1.7.2 Senator F. du H. Le Gresley:**

It is nice to stand up when you have been sat all day but that is not the reason I have risen. **[Laughter]** I have to hold my hand up and say: "This is probably my fault" because I attended my second Council of Ministers' meeting and we were discussing the Budget and the way we work things out and I asked the question: "Why is the age 63 for the higher threshold? What is the justification for it?" There were blank faces around the table because I do not think any of us quite knew why. Deputy Southern has put forward his idea that it is linked to the fact that you can elect to take your pension early at 63. But the reality is that a lot of people do different things when they

get to 63 which I will, like Deputy Southern, be in this group, so I am also in this group. We can elect to take it early, perhaps because it suits us or we have other income or we have just had enough of working or some people choose to take their pension early because they no longer have to pay class 1 contributions on their earned income. So that will be a reason why they work out that it is an advantage to take their old-age pension at 63. People have different reasons for doing different things. So the question is - and this is all about logic - why should we have a higher exemption for people over the age of 63 when logic says - and Deputy Southern alludes to this in his report - that when we get to 2025 when the pension age goes up to 66, he suggests that that would be a good time to change the age for the higher threshold? But the fact is that the current pension age is 65 which is what the Social Security Law says and, therefore, it seems incongruous that the tax law takes a different view of who should be regarded as a pensioner. Now I can list any number of other laws and regulations that have chosen 65 as the appropriate pension age. We have Income Support special payments for cold weather where the person in the household over the age of 65 is entitled to cold weather payments. We have the cold weather bonus which is age 65. We have the Jersey 65-Plus Health Plan which, by indication of its title, is for people over the age of 65. Within Income Support, we have a system of what is known as capital disregards. In other words, capital in the bank or assets that are disregarded and we have a higher disregard for people over the age of 65. So we have a number and there are probably more but those are the ones that immediately spring to mind. So we recognise that 65 is pension age and, therefore, I would suggest to Members that it is logic that the higher threshold should only be available for people over the age of 65. In the proposal, there is what is known as “grandfathering” which means that those people who are already receiving the higher allowance because they have just reached the age of 63 or 64 will be protected but, going forward, it is correct that people will have to wait until they get to 65. I do not think this is necessarily about saving money or further income for the Treasury. It is about logic. It is about something that stands out as unusual in our tax system and probably needs to be corrected. Now I think Deputy Southern has made a very good point when he says: “This is the giveaway Budget.” He has argued in previous amendments that we are not giving away enough but, however, he is right that there are things in this Budget for marginal taxpayers, in particular the 1 per cent reduction and of course a lot of pensioner households who have income above these thresholds do benefit from marginal tax relief. So some of the increase that people may be paying going forward, by virtue of raising this threshold, will be mitigated by the reduction in marginal rate. This proposition is one of those where you either think: “We stick with what we have” but, as is pointed out in the comment, this was signalled last year in the Budget statement that we would be moving to a higher threshold at the age of 65. We are following what we said. It is logical. There is no logic for 63, I would contend, and I ask Members to oppose this proposition.

### **1.7.3 The Connétable of St. John:**

I was one of those people who took my pension early only because having been in this House for a number of years, I looked around and I thought: “Knowing the way the House juggle their affairs from time to time, one day in the future, somebody is going to find a way of getting into the funds of Social Security.” [Laughter] Sure enough, as eggs will be eggs, it happened. Yes, I get 10 per cent less or whatever it is. I am not too fussed one way or the other. I am fortunate enough that I have got other means but this House is master of the destiny of the people of Jersey and I do have great concerns, even enshrouded in law, that the Minister for Treasury and Resources can get his fingers into a ring-fenced system that we have put in place. In fact, the young lady that was in the gallery this morning was far better behaved than our Minister for Treasury and Resources at the moment is, although she was leaning over the barrier there in not a dissimilar position. I am warning all of you, ladies and gentlemen, girls and boys, through the Chair.

### **The Deputy Bailiff:**

I am not sure that is safe, is it, Connétable? [Laughter]

**The Connétable of St. John:**

But, in fairness, we have seen what has been happening over the last 3 or 4 years with an increase in the pension age to 67 coming in the not too distant future. We have seen this as a way to try and help things and I have concerns that, as the House moves more to the right - because I have always thought I was a middle of the road politician - we are going to see certain things happening, as I have already described, in the way that people can get into these ring-fenced funds and that concerns me. It concerns me in a number of areas and I am sure that the Chief Minister who was in place as the former Minister for Social Security when this ring-fenced fund was broken into ... those are my words and not anyone else's and, no, I am not giving way to yourself or Senator Breckon. I am not giving way. Therefore, it concerns me. Hopefully, this is going to get the Chief Minister on his feet and he is going to tell us why we should not be supporting this but I think that it is important that you all examine your consciences and think what you are going to be doing in the future. You may not all be in this House and you would hope that the people who are elected are going to do what is right by the people who paid into this fund. I am just thinking of the long-term care scenario that we are going to be putting in place in the not too distant future where people who come into this Island, not having paid Social Security or into the long-term care system - which is a tax in itself although it is just going to be collected by the Tax Department - where we are told that somebody who has been here for 10 years will be able to be taken into long-term care and we will be picking up the bill.

[17:00]

But if that person has not been paying, it is still going to come out of your funding and I hope that the Minister for Health and Social Services is going to clear up that very point. But there are concerns there in the back of my mind on the long-term care and who else is going to be allowed to dip in and out of the Social Security funds? To me, it was put together back in the late 40s, early 50s for the benefit of those who had paid in and not to be bailing out the hospital or other areas. Just think, you have all got children or the majority of you have got children and grandchildren. Whatever you are putting in place over the next 3 or 5 years - and I can see a younger Member there who is smiling while he is chewing his sweet [Laughter] - please think forward another 20 or 30 years when you are coming up towards getting your pension and you are working until 67, 68 or higher, by the time you get there, that you want to protect it for those people who have paid into a system and not allow other people to dip in and out as we are doing at the moment in other areas of Social Security where our £6 million a year has been dipped into over the last 3 years and beyond. I am just giving you a warning, ladies and gentlemen or fellow Members, just to take note. The Deputy has got it about right. I am not saying: "I will support it at this moment" but I want to be convinced when he is summing up about what he is going to say but that is about all I am going to say on this at the moment.

**Senator F. du H. Le Gresley:**

Just for clarification, could I ask the last speaker if he agrees with me that this amendment has absolutely nothing to do with the Social Security Fund?

**The Connétable of St. John:**

I do but it has with Social Security *per se*.

**Senator I.J. Gorst:**

Or the Health Insurance Fund. [Laughter] Or the amendment. [Laughter] [Approbation]

**1.7.4 Senator A. Breckon:**

Just for clarification, I had my light on because I was waiting to speak. I would not dream of trying to cut the Constable of St. John off at the knees. I would not try and do that. Looking at this in the comments, at paragraph 18, it says that the impact of the proposal is softened - that is to say the 63 to 65 proposal - by the decrease in marginal rate from 27 per cent to 26 per cent together with a proposed increase in the exemption thresholds by 1.5 per cent. Also, further up, at paragraph 14: "The estimated additional revenue resulting from this proposal will be approximately £750,000. The number affected who will be those taxpayers liable to tax at the marginal rate will be approximately 1,100 each year." As Deputy Southern rightly said, over the 2 years, that is 2,200. On the one hand, there has been some talk and even hype about the good news Budget and then some people might have a shock when they realise the impact of what is being proposed. "Am I any better off?" The answer is: "Well, probably, no, they will not be." It is those people that are unfortunate enough to be in this category and will be worse off by the sums mentioned there. We have talked, in this Budget, about one of the intentions of it which is to give some economic stimulus to put money in the economy for spending and the better-off factor. Well, if this amendment is not accepted, then it does not do that. It is taking money out and we have heard on other people's amendments where it has been said that they have not made the case but, for me, the case has not been made for the change. We know that the pension age is to increase and we know when. So if this is going to be done, why not a gradual change rather than do the 2 years at once? So that is why I say I will be supporting this and the message could be to the Minister for Treasury and Resources that he go back, do that, propose it in a future Budget and it be done in a staged way over a number of years so there is no shock. As has been mentioned in last year's Budget, it is phased in as opposed to being done in one hit. Thank you.

#### **1.7.5 Deputy M. Tadier:**

I have a lot of respect for the Constable of St. John. Notwithstanding differences of political opinion, I think that, when he speaks, it is important that we listen. He used the phrase saying that we, as a House or an Assembly, are responsible for the destiny of this Island and we are the ones who make decisions. I think there has been a shift recently which I have alluded to in the past whereby the sovereignty of this Assembly as the decision-maker has been abdicated or there has been a desire to abdicate it to the Ministers. It is very telling. We have just been on the Government website for 2014 and it has already been changed. The allowances are already changed on there saying that for married and civil partnerships age 65 or over ... there has been change for single as well. Whereas, if you go back to 2013, it is for 63. So we cannot possibly adopt Deputy Southern's amendment because it has already been changed on the website.

#### **1.7.6 Connétable J.L.S. of Gallichan of Trinity:**

It is my understanding of the "63" that you were entitled to claim it at 63 provided you had paid 48 years of Social Security and, obviously, I am not going to say how old I am but when I left school, the age was 15 so if you added 15 to the 48, that came to 63. That was the only reason I thought it was, so if you had paid 48 years of insurance you are entitled to take an early retirement. As we now have a later age of school leavers and a lot of students go to university, I would have thought that would have fallen by the wayside but maybe I am not correct.

#### **1.7.7 Senator P.F.C. Ozouf:**

Very quickly, just to respond to Deputy Tadier, I think that his criticism is a little unfair. This move was signalled in last year's Budget debate where it was made very clear that it would be brought into legislation and would be brought into effect this year. It is of course subject to the States approval but it is right appropriately that people should be signalled for what was an intention and a clear intention in last year's Budget debate. It may be that an asterisk should be put there: "Subject to States approval" but this issue was signalled and I am grateful to Senator Le

Gresley to lead on this issue. It is appropriate that there should be a universal retirement age and I have heard no convincing arguments in this debate to change my mind that they should be resisted and the policy that was announced last year should be followed through and Members should vote against the amendment.

**The Deputy Bailiff:**

Does any other Member wish to speak? If not, I call on Deputy Southern to reply.

**1.7.8 Deputy G.P. Southern:**

Right, £750,000 that we do not want to put in people’s pockets. That is effectively what we are talking about. If you are age 63, you will not be spending that money in the local economy as Senator Breckon pointed out when he illustrated the good news Budget that we are supposed to be passing. The Minister for Social Security suggested that it was logical to tie this in with 65 but I think what would be logical to do is to tie it in with the changes to State pension age which we know are coming up in 2025 and 2031, and that would also fit in with the argument given by the Constable of Trinity that: “Okay, people start work later now so that would be the time to move the age of 63 to 65 looking at a pension age of 67.” That would be the logical approach. As Members have listened, have they heard a single reason why this must be done now or even should be done now and not at some time later? I do not believe I have heard one and I think it is perfectly satisfactory and acceptable to wait until we are making the major changes to the pension in future years, 2025 or 2031, to make any changes to this particular rule. It does not have to be done now and we want to co-ordinate it with the rest of the measures which are about more money in your pocket, less tax and more to spend. So I maintain the proposition, and call for the appel.

**The Deputy Bailiff:**

The appel is called for and I ask Members to return to their seats. The vote is on the fifth amendment lodged by Deputy Southern and I ask the Greffier to open the voting.

| <b>POUR: 14</b>            |  | <b>CONTRE: 29</b>          |  | <b>ABSTAIN: 0</b> |
|----------------------------|--|----------------------------|--|-------------------|
| Senator A. Breckon         |  | Senator P.F. Routier       |  |                   |
| Connétable of St. Lawrence |  | Senator P.F.C. Ozouf       |  |                   |
| Connétable of St. John     |  | Senator S.C. Ferguson      |  |                   |
| Connétable of St. Ouen     |  | Senator A.J.H. Maclean     |  |                   |
| Connétable of St. Saviour  |  | Senator B.I. Le Marquand   |  |                   |
| Deputy J.A. Martin (H)     |  | Senator F.du H. Le Gresley |  |                   |
| Deputy G.P. Southern (H)   |  | Senator I.J. Gorst         |  |                   |
| Deputy S. Pitman (H)       |  | Senator L.J. Farnham       |  |                   |
| Deputy M. Tadier (B)       |  | Connétable of St. Helier   |  |                   |
| Deputy T.M. Pitman (H)     |  | Connétable of Trinity      |  |                   |
| Deputy M.R. Higgins (H)    |  | Connétable of St. Clement  |  |                   |
| Deputy G.C.L. Baudains (C) |  | Connétable of St. Mary     |  |                   |
| Deputy J.H. Young (B)      |  | Connétable of St. Brelade  |  |                   |
| Deputy of St. Mary         |  | Connétable of St. Martin   |  |                   |
|                            |  | Connétable of Grouville    |  |                   |
|                            |  | Deputy R.C. Duhamel (S)    |  |                   |
|                            |  | Deputy of St. Ouen         |  |                   |
|                            |  | Deputy of Grouville        |  |                   |
|                            |  | Deputy of Trinity          |  |                   |
|                            |  | Deputy S.S.P.A. Power (B)  |  |                   |
|                            |  | Deputy K.C. Lewis (S)      |  |                   |
|                            |  | Deputy E.J. Noel (L)       |  |                   |
|                            |  | Deputy A.K.F. Green (H)    |  |                   |



|  |  |                        |  |  |
|--|--|------------------------|--|--|
|  |  | Deputy J.M. Maçon (S)  |  |  |
|  |  | Deputy of St. John     |  |  |
|  |  | Deputy S.J. Pinel (C)  |  |  |
|  |  | Deputy of St. Martin   |  |  |
|  |  | Deputy R.G. Bryans (H) |  |  |
|  |  | Deputy R.J. Rondel (H) |  |  |

**Senator P.F.C. Ozouf:**

Sir, may I just make a point of clarification and, indeed, it may be a point of order? Deputy Tadier, in his last remark, said that the States website said that the allowance has already been changed. I have looked at the website and it says: “These allowances and reliefs are not finalised as they still need to be agreed when the 2014 Budget is debated by the States Assembly.” Could I ask the Deputy to withdraw his remarks that the allowances have already been changed?

**Deputy M. Tadier:**

I certainly could not see that wording on the website; it was not clear. But if that is the case I will have another look and withdraw the comment.

**The Deputy Bailiff:**

You withdraw the comment for the time being at any rate?

**Deputy M. Tadier:**

Yes.

**1.8 Draft Budget Statement (P.122/2013): fourth amendment (P.122/2013 Amd.(4)) - paragraphs (e) and (f)**

**The Deputy Bailiff:**

We then return to amendment number 4 lodged by Deputy Young and we have paragraphs (e) and (f) to deal with. I ask the Greffier to read the amendments.

**The Greffier of the States:**

After the words “as set out in the Budget Statement” insert the words “(e) the estimate of income from taxation during 2014 shall be decreased by £1 million by zero-rating or exempting from goods and services tax from 1st July 2014 any expenditure on the installation and maintenance of energy conservation measures - including plant, equipment, and materials - from local suppliers and contractors”. (f) The estimate of income from taxation during 2014 shall be decreased by £200,000 by zero-rating from goods and services tax from 1st July 2014 on the purchasing, importation, and leasing of ultra-low emission vehicles - vehicles falling within the definition of the U.K. Office for Low Emission Vehicles, currently an emission level below 75gm/KM of CO2.

**1.8.1 Deputy J.H. Young:**

Starting with paragraph (e) this is for energy conservation measures, I begin by an apology. The Minister for Treasury and Resources makes the point that I did transpose in my report on page 7 the list that I produced there of those items in G.S.T. which are already zero-rated and those items in G.S.T. that are already exempt. I did, in my drafting, switch those headings. That is on page 7; that was a mistake. My apologies. I do not think it alters the sense of the point that I was making, there are already a number of zero-ratings and exemptions. Following on from our earlier discussion, I do think that from the Fiscal Policy Panel report, I believe that we should be prepared to be open-

mindful about looking at these micro-tax measures and not to take the view that it is a Holy Grail of all or nothing and that we cannot exercise more sophisticated and selective policies in terms of how we use the G.S.T. system to encourage public policies, to encourage benefits and perhaps to discourage where we do not want things to happen. I did put in the proposition that I tried to emphasise this, I thought this would benefit again our local economy in the way that I described when I was dealing with paragraph (c) that by adding in the G.S.T. exemption that would further encourage the uptake of energy conservation, supplies, and equipment. Again, we are talking about an £82 million pot.

[17:15]

Obviously I have had to draw upon the Minister for Planning and Environment's Energy Policy, and obviously we have had the benefit of professional advice which we set out in the Scrutiny Panel, and they have had a lot of information about what happens in other places. Jersey has signed up to international conventions, the same as other nations, to reduce our carbon emissions. Not everybody accepts that that is an objective, but even so I think there is universal acceptance that we should use energy more wisely. In the U.K. conversation measures have a low rate of V.A.T. and that is done selectively for low income groups. There are also capped allowances available for corporate businesses which get 100 per cent capital allowances, and I seem to remember somewhere somebody saying here: "Why are we so fixed and not even prepared to review our current capital allowances policy?" I know you get the argument, a nil corporate tax has no effect, you cannot provide an incentive, but the dividends are still taxed through individual taxpayers and so I think those sort of issues of incentives should be on our agenda. This is a very focused proposal. I have given you some figures from the U.K. Green Deal figures, this is published by the U.K. Government and their office to deal with the Energy Conservation Department. You will see there that some 266,000 properties - and I think I referred to that before - have had energy conservation measures. My point also applies here that my figures in here about the cost were based on the Minister's target of 1,000 homes and I think that now is, frankly, not going to happen. The Minister is saying yes it will, but I think if this is all done through energy conservation measures, through tax allowances, I do not see us having to provide support for 1,000 units, it will be less. The objections that have been posed for us trying to encourage this introduction of high-tech energy measures - and I have given that list, but again I have not said this is a prescriptive list. I certainly took the view, and I think my report makes it plain, that I would expect if this is agreed for the Income Tax Department to have a look at that list and if they thought it was unmanageable, to make it more manageable and practical. Again, those elements of what is in the list are not in the proposition. I was not aware of this issue about banning, the E.U. laws or the E.U. preventing us from having a selective tax on local suppliers. In other words, because my proposition (e) talks about from local suppliers and contractors. The point I remember making at the Fiscal Policy Panel was: "How can we prevent leakage from fiscal stimulus money in our economy?" I was told basically: "You cannot." We were there talking about spending mega monies on hospitals and so on. This is, again, more material so that is why I include it in the proposition. I would like to think that if the House approves, this has got to go into legislation and could come back in a way which is legally possible. I see this as a measure to encourage local skills, local jobs, local training and development of careers in this area of work because there is a mountain of work to be done here, 40,000 homes locally. I think at the moment we do nothing to encourage the development of that local business. So that is my take on item (e). Item (f) I think should be the easiest one of all to approve because here we are talking about a market for a special type of vehicles that frankly do not really exist in Jersey at the moment. These are ultra-low emission vehicles which meet the definitions set up by the U.K. office, they even have a Government office now of low emission vehicles that meet the emissions level of 75gm per kilometre of CO<sub>2</sub>. They already have in the U.K. 100 per cent capital allowances for vehicles producing less than 95gm and at the moment

about 18 per cent of all cars registered in the U.K. are meeting the 95 kilogram target. But the 75 one is new, so new that there are only a few manufacturers' models around, which is true, they are very expensive. Whereas in the U.K. there is a grant payable of £5,000 towards it - and there are other exemptions - in Jersey we impose G.S.T., we make an already expensive vehicle even more expensive. So there is a massive disincentive to this happening. The forecasts of the numbers of vehicles were produced by the Income Tax Department, I had to accept them and I think in their words they say at the moment that there will be 150 registrations per year and then that they would rise to obviously a greater number of vehicles to make a cost of £200,000. I think probably the last sheet that I hand out there, page 6, this is the sheet around sideways, these are the statistics of the number of such vehicles and I have highlighted in the box on the left the statistics for these vehicles that meet this very new standard. You can see there that the numbers are extraordinarily low, so I think this is us having a chance to get in at the ground floor. I do not think the cost will be anything like its forecast, because there simply are not the vehicles at the moment, and I would like to think at least today we improve that. On the day that the Minister for Planning and Environment signs the environmental accords on important environmental policies with the U.K. southwest and Guernsey and Sark and Alderney, I think we should effectively put our commitment here. I cannot see an argument against item (f). I am turning to the report to see if I can pick up what was said. It said: "The type of vehicles are not popular." The point is we want to make them so, and it says that the V.E.D. (Vehicle Excise Duty) scheme already recognises the benefits of low emission vehicles. It does but the V.E.D. limit is 120 kilograms, not 75. Then we have said that T.T.S. have introduced an incentive through parking charges. Well, wonderful if there are not many vehicles. So I think item (f) I very much hope that it is really a no-brainer. It will cost hardly any money and I cannot think that it would be complicated at all to add it to the list. That is my proposition, those 2 items.

#### **The Deputy Bailiff:**

Is the amendment seconded? [**Seconded**]

#### **1.8.2 Senator S.C. Ferguson:**

The problem is that the Deputy is very well-meaning and he is confusing sensible environmental policies with fallacious science, and you should keep them separate. [**Laughter**] Speaking as a scientist. My sentiments on the exemption of anything for G.S.T. purposes have not altered since this morning. The current energy conservation grants that are being talked about are in fact means-tested, so it does not apply to everybody. But basically if a process reduces your electricity, gas or water bill, then the odds are you are going to do it, you are going to put the thing into place whether you get a G.S.T. allowance or anything. You do the cost-benefit. If the energy conservation measures will reduce the cost of use of energy then people are going to adopt them anyway. As more people adopt the measures then the cost will fall and the market will win in the end, as it always does. If subsidies, as in the form of G.S.T. allowances, are required to persuade people to take up any sort of measure - whether it is energy conservation or vehicles or whatever - then the process is not commercial and may never be. It is greatly mistaken to encourage such a drain on resources without the evidence. Similarly for vehicles with the rider, I would like to see the Deputy provide solid scientific evidence that carbon dioxide emissions from cars are in fact harmful, because on that basis we could get rid of E.E.D. (Environmental Excise Duty) as well because there is no evidence. As far as vehicles are concerned it is the particulate pollution from diesels which are harmful and these are the vehicles to be banned. I would add that the bumper harvests this year are due to a bit more CO<sub>2</sub> and carbon dioxide in the year, and the Kyoto Treaty was not renewed on 31st November 2012, it died, so I am not quite sure why we are using that as a basis for anything. But G.S.T. purposes, G.S.T. subsidies, no. Keep it simple, keep it absolutely basic.

#### **1.8.3 Deputy E.J. Noel:**

Given the hour I am going to keep this brief regarding these 2 amendments. **[Approbation]** Regarding amendment (e) we are strongly opposed to this measure for many of the same reasons referred to in the Minister's earlier response to paragraph (c) of the Deputy's amendment regarding the extension for interest relief to energy efficiency and home improvements works. In addition to those reasons given earlier this amendment is contrary to what I was speaking about this morning, which is the B.B.L.R. simple tax regime. We also believe that energy conservation measures are better dealt with under a targeted grant system as there is no guarantee that zero-rating such installations will result in a lower cost to the consumer. While the Deputy's reference to supporting local businesses is well-intentioned, the definition is determined whether a contractor is local is likely to be problematic in reality. Moving on to amendment (f), again, we oppose this amendment. This time it is not a strongly oppose, these types of vehicles already benefit - as he has mentioned - from the V.E.D. import duties which are reduced to zero on these matters, and to the discounted car parking that is offered by T.T.S. These concessions are currently regarded as adequate for businesses and some private users of this type of vehicle who would also save obviously on their running costs. There is significant doubt that G.S.T. relief in addition to the existing advantages will directly result in greater sales and the replacement of such vehicles which are more polluting. Currently you could argue that as private users of such vehicles, these are lifestyle choices for those who can afford them. What we really need to do is wait for the prices of these vehicles to come down and then consider - in conjunction with some of the utilities - a suitable type of grant scheme. The Deputy is well-intentioned with these amendments, but the solution to the problem is not by playing with our G.S.T. system. We need to look at this in consultation with the industry and bring back further proposals when the cost of these vehicles has reduced.

**The Deputy Bailiff:**

The adjournment is proposed. Before we adjourn I give notice that the Draft Long Term Care (States Contribution) (Jersey) Regulations - P.140 - presented by the Minister for Social Security now has, also presented by the Minister, an addendum. The Minister has given it to Members accordingly. We now adjourn until 9.30 a.m. tomorrow morning.

**ADJOURNMENT**

[17:29]