1240/5(3870)

WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES BY DEPUTY G.P. SOUTHERN OF ST. HELIER

ANSWER TO BE TABLED ON TUESDAY 13th MAY 2008

Question

Does the Minister accept that following the introduction of GST on 6th May Islanders will see a 53% increase in indirect taxation, totalling over £130 million in 2008 made up approximately of the following:

Impôts	£53m	(2006)	
Stamp Duty	£23m	(2006)	
Island Rates	£ 9m	(2006)	
	=	£85m	
GST	+	£45m	(est. full year 2008)
	=	£130m	

What justification has the Minister to offer to residents for such an increase in indirect taxation at a time when the economy is growing along with income tax receipts?

Answer

While the calculation is not quite accurate (it compares 2006 revenue for Impôts, stamp duty and Island rates with a 2008 figure for GST) the Deputy is correct to identify that the introduction of GST will mean a significant rise in indirect tax for Islanders.

It is surprising however that after numerous States debates on the subject of 0/10 that the Deputy is asking at such a late stage what the justification is for such an increase. Most States members will not need reminding that the move to 0/10 is critical for the Island if we are to sustain the economic success we have all become accustomed to. The whole purpose of the States Fiscal Strategy is to reduce corporate tax (direct taxation) to keep the finance industry competitive and at the same time meet international requirements on corporate tax. This requires Islanders to pay a little more tax now in order to prevent having to pay significantly more tax in the future.

GST is an indirect tax and the main measure for achieving this. GST was chosen for a number of reasons and in particular because it is paid by everyone whatever their source of income and because it does not impact on the competitiveness of the economy (it excludes exports and includes imports).

The Deputy implies that because the economy and tax receipts are growing there is no need to introduce GST. This seems to be based on the premise that if we have an increase in tax revenue it is alright to spend it. However, this is not sound economic management because it means that the combination of States tax and spending policy would be to add more to demand in the economy at time of strong economic growth and little or no spare capacity. The outcome of such an approach would be inflationary which would be against the States economic objectives and to the detriment of all Islanders and businesses.

The new Fiscal Framework agreed by the States in 2006 makes it clear that when the economy is growing strongly we need to be taking money out of the economy and ensuring that fiscal policy acts in a counter cyclical manner. The Fiscal Policy Panel are a key component of this new framework and it is important that we listen to their independent advice on the most appropriate balance between tax and spending when they publish their first report in August.