

STATES OF JERSEY



BUDGET 2006: AMENDMENT (P.259/2005) – COMMENTS

**Presented to the States on 29th November 2005
by the Finance and Economics Committee**

STATES GREFFE

COMMENTS

Senator Shenton proposes to amend the budget by increasing the Health and Social Services Committee expenditure by £380,000 and to obtain these funds by cancelling Finance and Economics Committee's proposal to introduce discounted rates of Vehicle Registration Duty on second-hand vehicles.

Funding

The Committee is not opposed to Senator Shenton's aim to enable more children to be placed in family-based care instead of residential units but cannot agree with this method of funding. In fact the Committee is surprised that the amendment is being brought at all because it understands that the Health and Social Services Committee has in fact allocated £390,000 for the first phase of the fostering service.

Nonetheless the Committee will comment on the amendment's proposed method of funding.

Firstly it should be stressed that this is not a question of whether the money from VRD is better spent on "second-hand car dealers or children in need of care and attention". That argument could be applied to any area of States spending and would get us nowhere.

The Committee commented on the correct procedure for allocating this funding when Senator Shenton made a similar proposal in October 2005 (P.219/2005). The Committee stated –

"that it opposes the proposition on the grounds that the States Business Plan was the appropriate opportunity to propose an amendment to the States spending plans for 2006 to 2008."

It also commented –

"The Health and Social Services Committee received a significant proportion of the additional funding from the recent resource allocation process, some £8.9 million over the period 2006 to 2008. If the States were minded to approve this proposition the Committee would ask that, in the first instance, the Health and Social Services Committee consider the proposed development of fostering and adoption services against the other competing service priorities for the additional funding it has already been awarded.

If the required additional funding were not identified through this process then the proposed route would be a submission to the business planning and resource allocation process 2007 to 2009, which will follow the review of the States Strategic Plan by the Council of Ministers early next year."

The individual funding of favoured projects by targeted intervention in the tax system is definitely not the way to proceed.

VRD proposals

There are, in fact, very good reasons for applying discounted rates to second-hand vehicles. The Finance and Economics Committee has a responsibility to ensure that the taxation system in the Island is fair and equitable and when problems are discovered to take appropriate action to remedy them. During the Budget debate last year the Committee undertook to examine VRD in the light of the Review of Vehicle Registration Duty undertaken by the States Economic Adviser, in consultation with interested parties, and published in November 2004. In particular it said it would look at the issues surrounding the repeal of VRD when GST is introduced. VRD is not an ongoing source of revenue.

One of the problems would certainly be the treatment of second-hand vehicles. In the Review, the Economic Adviser said: "The initial impact of VRD has been larger on the importation of second-hand cars than for new cars, given the fact VRD makes up a larger proportion of the price and increases the differential price between in-Island second-hand and imported second-hand cars."

It was clear that the effect of VRD on second-hand vehicles was disproportionately affecting their ultimate price

and needed to be addressed. Consequently work was undertaken during 2005 to examine the best way to resolve this. The major benefit would accrue not so much to second-hand car dealers but rather to those who are less well off, as they will have access to cheaper second-hand cars.

The trade were consulted and it was agreed that a discounted rate of duty based on actual depreciation rates would be appropriate. The simplest way to achieve this was by the application of percentage reductions of the full rate to second-hand vehicles and the Committee's proposal clearly does this.

The closer relationship of VRD to ultimate price will ensure a smoother transition when GST is introduced and VRD is repealed. GST will be a tax calculated on the value of goods and the closer that VRD gets to reflecting this, the fewer distortions there will be.

The Committee is convinced of the need to address the issue of second-hand vehicles and their liability to VRD and urges members to reject this amendment.