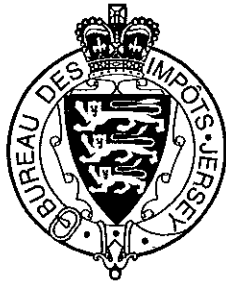


502/5/14(1)



# States of Jersey Customs and Immigration

Maritime House, La Route du Port Elizabeth,  
St. Helier, Jersey, JE1 1JJ, Channel Islands.

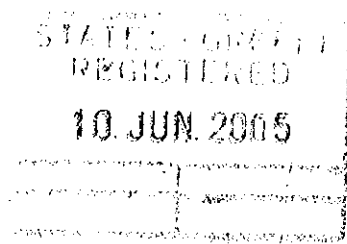
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Our Ref: MJR/CF/2.8

8<sup>th</sup> June 2005

Deputy R Duhamel  
Shadow Scrutiny Panel Chairman  
Scrutiny Office  
Royal Court House  
Royal Square  
St Helier  
JE1 1DD



Dear Deputy Duhamel

## Shadow Scrutiny Panel Goods and Services Tax Review

I write in response to your letter of 20<sup>th</sup> May which requests from me a written submission addressing the points raised on page two of your letter.

Before I address the individual points I think it would be helpful to explain the Customs and Immigration Department's role in the work to design a prototype Goods and Services Tax (GST) for Jersey.

As you will recall on 7<sup>th</sup> July 2004 the States of Jersey approved the Fiscal Strategy (P106/2004) that had been proposed by the Finance and Economics Committee.

Section d(iii) of the Fiscal Strategy charged the Committee "to undertake further research into a goods and services tax, a payroll tax, environmental taxes, development levies and further tax enforcement measures in order to investigate the feasibility of their introduction, and to bring forward details to the States with recommendations for approval by February 2005."

Neither I nor any colleague in the Department are, or claim to be, experts in the introduction or application of consumption taxes such as GST. Our Department's role was to facilitate the process for the selection of an appropriate organisation to conduct the work of designing the prototype GST, in order to enable the Committee to fulfil the obligations imposed on it by P106/2004.

On 30<sup>th</sup> July 2004 the Department issued a Request for Proposal<sup>1</sup> for this work and five organisations subsequently submitted formal proposals. They were the four accountancy firms of Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers and the international development company Crown Agents.

On 25<sup>th</sup> August 2004 the selection board met to receive submissions from the proposers and decide the organisation to be appointed. The selection board comprised of Senator Terry Le Sueur, President of Finance & Economics, Mr. Ian Black, Treasurer of the States,

<sup>1</sup> The Request For Proposal is enclosed -- Enclosure 1

Mr. Stephen Cole, Agent of the Impôts and me. We were assisted, in an advisory capacity, by Mr. Robin Tough a senior officer with H. M. Customs & Excise.

The board were unanimous in selecting Crown Agents. Deciding factors in the decision were:

- An excellent proposal and presentation;
- Their extensive experience in designing and implementing GST style taxes;
- They gave a very competitive price;
- They could be clearly seen to be impartial and not influenced by any business or other pressures.

The Crown Agents' team carried out their work during the last four months of 2004 and produced their Final Report ('Proposal for the Design of a Prototype Goods and Services Tax') in January 2005.

I will turn now to the specific points that you have asked me to comment on. I will address the points on the basis that the vast majority of the work was actually undertaken by Crown Agents and that our Department was acting in the role of facilitator. The points are answered in the order they appear in your letter.

- **The validity of the data your department has produced**
- **The degree of confidence your department has in the forecast it has made**

I have assumed that these points refer to the outcome of the Crown Agents' work that enabled them to recommend a 3% GST to raise £40 to £45 million per annum, including a simplified treatment of the Financial Services Industry to raise £5 to £10 million, and with a registration threshold of £300,000.

I would refer you to Section 4 of the Crown Agents' final report<sup>2</sup>. In this section they have explained in detail their recommendations and how they arrived at them. They have provided a full explanation of their workings and the sources they have used. It is particularly important to note the caveats they have stressed - especially section 4.8 'Limitations in Our Methodology and Estimates'.

I am confident that they have demonstrated a rigour and care when producing their figures and have explained the validity of the data used, within the limits they have highlighted.

- **Your department's experience of "tax gaps" between theoretical and actual tax collections and how large it expects the gap to be in Jersey**

Our department has very limited experience of "tax gaps" from its work in the collection of Impôts duties.

Crown Agents, however, have given the benefit of their experience. They believe, following discussions with the Comptroller of Income Tax, that the average Jersey business taxpayer (likely to be registered under the GST system recommended) should be very compliant. They recognise that the Island is entering new territory with a broad based consumption tax, but experience elsewhere shows that a simple GST with a high threshold and a low rate in an island economy with no porous borders results in very good compliance and a small gap. This, taken with factors such as a well planned/resourced implementation project (including a focussed

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<sup>2</sup> 'Proposal for the Design of a Prototype Goods and Services Tax', Crown Agents, pp.15 - 44

education programme), good administration, customer focus, use of e-governance and professional audits, leads them to expect the gap to be under 5%.

- **The experience within your department in designing similar taxation packages for other states and the success or otherwise of their implementation.**

I have already explained that we do not have this expertise within our department and this is why an external organisation was contracted to undertake the work.

Crown Agents provided details of their experience in the design, implementation and development of GST type taxes in their formal proposal for the design work<sup>3</sup>. The countries listed include Kenya, Ghana, Tanzania, Jordan, India (Orissa and Karnataka), Isle of Man, Bahamas and St. Kitts.

They gave this summary of their ability to perform the work:

*"We propose to deploy a team with outstanding credentials including in depth global experience of the design and implementation of indirect systems. Team members have first hand experience of completing projects in similar jurisdictions (e.g. Bahamas) and can also draw on the experience of more than 600 Crown Agents consultants and representative offices in 40 countries. Our team also includes a local resource as an on the ground point of contact and project manager".<sup>4</sup>*

As can be seen from the formal proposal the team was led by Steve Lowthorpe, indirect tax consultant & VAT specialist. The three other members of the team were Ved Gandhi, internationally renowned economist, Graeme Hammond, corporate communications consultant and Brian Coutanche, local management consultant. Their curriculum vitae reveal the wealth of experience that they have in this type of work.<sup>5</sup>

[Note: The actual implementation and subsequent administration of GST in Jersey will be led by the Income Tax Department, in line with the recommendation of Crown Agents.]

- **Why your department believes the GST is not regressive and how it supports this view.**

The department has never claimed that the GST is not regressive. The department does, however, support the view expressed in the Finance and Economics Committee's comment on Senator Stuart Syvret's amendment to P44/2005, that the 3% GST is only slightly regressive.

Senator Syvret had claimed that "*Sales taxes are highly regressive*". The department believes that the GST designed by Crown Agents is not **highly** regressive, but fully accepts the Crown Agents' own description of their proposed GST as having "slight regressivity".<sup>6</sup>

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<sup>3</sup> Annex C of the formal proposal, 'Crown Agents Expertise in Taxation', is enclosed - Enclosure 2.

<sup>4</sup> Section 3 of the formal proposal, 'Crown Agents' Project Consultants', is enclosed - Enclosure 3

<sup>5</sup> Annex B of the formal proposal, 'Curriculum Vitae of Project Consultants', is enclosed - Enclosure 4

<sup>6</sup> Notwithstanding its acceptance that the proposed GST will be slightly regressive the department is aware of a point of view that a broad based tax on consumption can be viewed as proportionate – see Ebrill et al, 2001, *The Modern VAT*, (IMF) pp. 106 - 107 – copy enclosed at Enclosure 5

Crown Agents demonstrated this in Table 5 of their final report<sup>7</sup> which shows the effect on Island households by comparing the expenditure on GST for each quintile<sup>8</sup>. An abridged version of this table is shown below.

**GST as a percentage of household expenditure by quintile**

	Group 1	Group 2	Group 3	Group 4	Group 5
<b>Broad Based (3% rate)</b>	2.5%	2.5%	2.4%	2.4%	2.4%

*Source: Crown Agents*

Crown Agents commented on their table thus: *“The table reveals slight regressivity in the burdens of GST for the five groups, even when measured in terms of their total expenditure levels. (It would certainly be higher if it were measured in terms of their respective income levels)”*.

The effect in terms of income levels was demonstrated by Table 2 in the Committee’s comment on Senator Syvret’s amendment and an abridged version of this table is shown below.

**GST as a percentage of taxpayer income by quintile**

	Group 1	Group 2	Group 3	Group 4	Group 5
<b>Broad Based (3% rate)</b>	2.2%	2.0%	1.9%	1.9%	1.9%

*Source: Crown Agents*

In conclusion, it is worth recalling that Finance and Economics Committee made it very clear in its proposals that the Fiscal Strategy should be taken as a package (P44/2005). The individual elements of taxation, economic growth and Income Support were designed to complement each other and overall produce a progressive effect. This is entirely in accord with the views of Crown Agents whose comments on this issue can be reproduced thus:

*“...it can be argued that such a tax [GST] has the potential to raise the overall cost of living, disadvantage lower income groups more than it would hit the rich and would be regressive.*

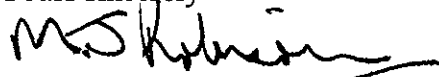
*However, there are...factors that have proved mitigating in respect of these effects and have convinced policy makers elsewhere in the world to be less concerned.*

*First, there is no reason why each and every tax in the tax system of a country must have “progressivity” (i.e. linked to the ability to pay) rather it is the overall progressivity of the complete tax system that is relevant.*

*Second, the cost of living impact of any consumption tax, especially on the poor and the vulnerable, can be offset by expanding income support for such people”.*<sup>9</sup>

I hope that this submission is helpful and please let me know if I can be of any further assistance.

Yours sincerely



**Mike Robinson**  
**Director Customs and Excise**

<sup>7</sup> ‘Proposal for the Design of a Prototype Goods and Services Tax’, Crown Agents, p. 34

<sup>8</sup> Each quintile has an equal number of households. Those in the first quintile have the lowest income per household while those in the fifth quintile have the highest income per household.

<sup>9</sup> ‘Proposal for the Design of a Prototype Goods and Services Tax’, Crown Agents, p. 12