

Corporate Services Scrutiny Panel

GST Sub-Panel

TUESDAY, 7th AUGUST 2007

Panel:

Deputy P.J.D. Ryan of St. Helier (Chairman)
Connétable M.K. Jackson of St. Brelade
Connétable J.L.S. Gallichan of Trinity

Mr. R. Teather (Advisor)

Witnesses:

Mr. R. Shead (Vice President, Chamber of Commerce)

Deputy P.J.D. Ryan of St. Helier (Chairman):

Good afternoon, Ray.

Mr. R. Shead (Vice President, Chamber of Commerce):

Good afternoon, Mr. Chairman.

Deputy P.J.D. Ryan:

You are here representing the Chamber of Commerce, although without the kind of offers of support of the Treasury and Resources Minister.

Mr. R. Shead:

Yes, we do not have that kind of backup, I am afraid.

Deputy P.J.D. Ryan:

I do not think we will get on to the questions about overspending on advisors, or anything like that.

Mr. R. Shead:

No, we will stick to the matter in hand.

Deputy P.J.D. Ryan:

I think a couple of just general recap questions, Ray, if we can. The business reaction to GST (Goods and Services Tax) in the first place, going back now 2 to 3 years, was I suppose what could be described as grudging acceptance.

Mr. R. Shead:

Yes, and I think that is a reasonable ...

Deputy P.J.D. Ryan:

Has it changed?

Mr. R. Shead:

Not really, though we are certain of our members, obviously, because we are a consensus organisation for a wide range of companies that we represent, certain members say we should not have GST, we do not need it anyway; it is up to the States to save the money. Other members say that maybe implementation should be delayed, but we are having an ongoing discussion, and we are in the process of further discussions that we are doing at the moment. We have a meeting with the Treasury Minister this afternoon, and we have had meetings with Ministers, and we are in the process of finalising our response, let us put it like this, where we will make an official Chamber statement by the end of this week or early next week on our position. Not as GST as such, because GST is now the law, so therefore, we accept it as being under the law. But it is our response to the way that it is being operated and whether or not it should be deferred. So, we are discussing this now and we will come out with a policy statement, as I said, by the end of this week or early next week.

Deputy P.J.D. Ryan:

Okay. Again going back 2 or 3 years, there were lots of worries about the administrative costs, and it was going to be horrendous to deal with, and what have you. Also, given the relatively high threshold of £300,000, which I think more and more people are beginning to understand the implications of whether they are below it or above it, and I think there is now more becoming, I would suspect, a better understanding of exactly how it works and what the administration will entail, do you think that, for example, computer systems, people are beginning to realise that the computer systems will take a lot of the steam out of this for businesses?

Mr. R. Shead:

I think so, yes. I mean, we have a focus group on my retail committee at the Chamber, comprising one retailer who was old enough to remember when VAT (Value Added Tax) was introduced in the UK (United Kingdom), so he knows what it is like to start off with a brand new tax. We also have an IT (Information Technology) specialist as well, who is advising us on exactly these sorts of software and computer issues.

Deputy P.J.D. Ryan:

So, would you say the atmosphere is a little bit more relaxed in this area, as understanding grows?

Mr. R. Shead:

It is more for companies that will be registered for GST, yes. That, I think, because we have had some very sensible discussions with Customs and the GST office about how the GST would apply in relation to imports in particular, and the actual administration of the scheme has been simplified enormously for GST-registered companies and approved traders.

Deputy P.J.D. Ryan:

That is fine.

Connétable M.K. Jackson of St. Brelade:

Do you find there is a conflict between any of your traders in what they are looking for? We heard earlier on of conflicts perhaps between freight forwarders and the consumers and the retailers. Do you feel a disparity between your members on this?

Mr. R. Shead:

I am not sure a dispute, different people look at it from different angles. So, you have the angle of a shipping company, a forwarder who deals with this on a day-to-day basis, thinking how this is going to work in the number of deliveries and everything else they make. Then retailers are saying: "We do not want too high a level because that is obviously going to have an effect on our business," and I am talking about the *de minimis* level. So, there is obviously a difference of opinion among our membership as to how GST would operate, yes, there is bound to be.

Deputy P.J.D. Ryan:

Can I just come in there for a second, just to try and keep a little bit of order and structure to the meeting? We are going to come on to *de minimis* after, but we just want to try and clear a few other things. Mike, is that okay by you if we just hold it there and just park that for a second, the *de minimis*? Because I think we want to go into that in a little bit more detail in about 5 minutes. Have you got any particular stance on the new exemptions, the funeral directors, and the conversion of building to domestic, which is one that has latterly come back in? Have you got any comments? Childcare?

Mr. R. Shead:

I am slightly surprised at the conversion one, I must admit. I can see the logic to it in a way, because obviously, people are improving the value of their properties and putting them -- it is the largest single item that most people have. So, therefore, it is logical that people would want to do it, although I was surprised that that was enacted, that that amendment came about.

Deputy P.J.D. Ryan:

Childcare, education, no comments? Would you be making any comments on those?

Mr. R. Shead:

No, I do not think so on those types of issues, those types of things make it very difficult. Those types of issues, when you refer childcare and education, I am not sure whether those sorts of things should be taxed anyway. That is just a view, though, obviously, our aim was always to have a simple and broad tax, which is always difficult. But with certain amendments that have come up, some of them are okay; let us put it like that.

Deputy P.J.D. Ryan:

Because there is a view that what we now have is pretty close to the UK system; possibly, the only one that is missing is the zero rating of food. Other than that ...

Mr. R. Shead:

GST is VAT by another name; I think that is fairly clear.

Deputy P.J.D. Ryan:

The question being posed is simply is this still the simple, broad-based, very few exemptions tax? Is it still that?

Mr. R. Shead:

It is still the fairly simple, fairly broad-based system. That is a word that I would use.

Deputy P.J.D. Ryan:

Because that is the view that is being ...

The Connétable of St. Brelade:

Do you have funeral directors as members of the Chamber?

Mr. R. Shead:

A good question. I would like to think so, because we cover the range, but I have not seen any. I cannot tell you offhand now.

The Connétable of St. Brelade:

You have had no particular representative derived from that sector?

Mr. R. Shead:

I must say, because in your original letter, Mr. Chairman, we were just talking about the amendment, so

I have not done any sort further investigation

Deputy P.J.D. Ryan:

Yes, we will come to that later. This is just talking generally now.

Mr. R. Shead:

I should know whether a funeral director is a member of the Chamber, I am sorry.

The Connétable of St. Brelade:

But there has been no representation to you directly?

Mr. R. Shead:

We have had no representations from them, no.

Deputy P.J.D. Ryan:

We are just trying to put to bed some of the other wider issues while you are here, while we have you. Margin schemes, any comments on that? This is the second-hand car margin scheme; dealers will only have to charge GST on the differences between their buying and selling price, as opposed to on the whole value. Do you think the Chamber agrees with this late amendment?

Mr. R. Shead:

I have not studied that, I have to say, and therefore, I would not like to comment on that, because I have not studied this one at all. We are in the process. Obviously, the other problem that we have on a number of these issues that have come up is we have a very small support staff. The person who is our policy director has just come back from holiday for the past few weeks, so we are a bit behind in picking up a number of things that are going on at the moment.

Deputy P.J.D. Ryan:

Okay, no problem.

The Connétable of St. Brelade:

Likewise, on that, we spoke of boats and yachts earlier on, but there are antique dealers and suchlike who could be in the same situation and maybe you have members who are in that sort of trade. Are you aware of any of those?

Mr. R. Shead:

I think we possibly have, yes, but probably under the sort of furniture-type people that are our retail members, yes. But we are in the process of preparing more updated information. Part of the problem is

that we have not yet seen the full regulations as to how GST operates. We are getting asked these questions, and we have run a number of seminars with the tax office over the summer, and we will hopefully do some more when we know. The point at the moment, Mr. Constable, is we have not seen the regulations, so it has become very difficult. There were some regulations that came out yesterday that we are going to start looking into to prepare some comments on and obviously, we will be talking to our membership and we will arrange seminars, and this sort of thing, because people need to know. The sort of questions you are asking are some of the questions that we have been asked that we are not able to answer at the moment, because we just do not know how the regulations will apply, because we have not seen them yet.

Deputy P.J.D. Ryan:

Perhaps I could just ask you to copy us in on your comments on these regulations to the Scrutiny Panel, as well to the GST team?

Mr. R. Shead:

The new regulations came out yesterday.

Deputy P.J.D. Ryan:

Yes, as and when they come out.

Mr. R. Shead:

I have not had a chance to read it yet, but we will be putting in a full comment on that. But, of course, the regulations that came out yesterday need to be read in conjunction with the regulations which are not yet out. Those are the ones that we want to see because, as I understand it, the document just relates to various items in the law, but the regulations under those items are not out yet, so, it is very difficult to make any sort of informed comment on that.

Deputy P.J.D. Ryan:

When you get a chance, then.

Mr. R. Shead:

Yes, we will be doing it. I have it here; we have 13 pages of it. But everything relates to a particular regulation, and what we want to see is the actual regulation. I have the document here and I have already asked our policy director to start looking into this.

Deputy P.J.D. Ryan:

Yes, it appears that we have information that you do not have here, but I think you will be getting it soon, let us put it that way.

Mr. R. Shead:

If you would happily share it with us, Mr. Chairman, I could probably give you some answers.

Deputy P.J.D. Ryan:

Okay, thank you. Just quickly, the flat fee on the finance industry, I think the Chamber's position is that you accept the proposed flat rate fee as an alternative to the partial exemption.

Mr. R. Shead:

I think so, yes. I gather it is going to raise about £8.6 million; it means that the finance industry does not have to comply -- well, not comply, they just make a lump sum payment, and I think that is a reasonable thing to happen. I do not think it is the way that businesses could operate, because a flat fee would not be equitable.

Deputy P.J.D. Ryan:

Okay, thank you. Imports. Again, I do not know if you were here for the whole period of time in the trading talks.

Mr. R. Shead:

No, I was not here.

Deputy P.J.D. Ryan:

Well, we talked about imports generally first, before we got on to *de minimis* levels. The 2 are connected but we just want to talk about the importation situation first. Are you generally happy with the system of imports that they have devised, and the administrative arrangements?

Mr. R. Shead:

That is under the draft directive that affects GST registered companies, yes, we are happy with that. We have had some very detailed discussions, as I said earlier, with Customs and we have reached some very sensible accommodations, let us put it like that, for registered companies, because that is where the bulk of the GST on imports would come through.

Deputy P.J.D. Ryan:

Moving to courier and postal traffic, what is your comment about this lack of value and documentation on the items that are coming in? What is your view on that, and can it be cured in time?

Mr. R. Shead:

There is a very difficult problem here. I am involved in logistics, it is a sort of sideline, you can put it

like this, and I have had 30-odd years of experience of transport and shipping to the Islands. For the courier traffic and the parcels traffic, we are counted as part of the UK domestic market. Therefore, it is not necessary for values to be declared, or has not been in the past. Which means that we can get one-day service and this sort of thing, because the big operators, such as UPS and TNT, pick up the Channel Islands traffic with all their other UK traffic. It comes over with, obviously, some paperwork, but without declarations of value, which are not necessarily needed, or have not been needed until now, until GST, anyway. To accommodate that is quite a difficult area and I would put it down as for registered companies, not a problem, because those companies who receive products coming that way would declare them on their normal import returns. But there is a problem for the occasional importer, for the private importer, and what I would loosely call the white-van man, people who are bringing in smaller quantities. I could only describe it as risk management issue for Customs there. They know the pattern of trade. I am sure they realise that you cannot clog up the airport or the harbour with low-value consignments as well, because the whole system, there is nowhere to put anything, so it has to be delivered. I do see that there is a logistical problem there. But to change the system would, I think, be to put Jersey importers at a great disadvantage because it means if you are not in the UK home market you have to start doing export clearances. Well, that is a whole new ball game, and that is a really rather difficult issue.

The Connétable of St. Brelade:

Do you see any difficulty with declarations of value? There has been doubt expressed over the transparency of that sort of document.

Mr. R. Shead:

It depends. I know from my experience, people just turn up in Portsmouth: "Got a parcel for Jersey, mate", and they do not even have the bit of paper. We know this happens, but I can see that that could well be a problem when you have to start declaring values, because once you start doing that, that does create a problem, and there is a grey area there.

The Connétable of St. Brelade:

Do you see a potential discrepancy between declaration of value and perhaps an invoice value or something?

Mr. R. Shead:

No, I just think that what is an issue, I think we discussed at a previous meeting, often invoices follow up to a couple of weeks after the date of shipment and therefore, people will always know what the value of the goods are. They just might not know that at the time of shipment, that is all.

Deputy P.J.D. Ryan:

This cash flow advantage or disadvantage for the registered accredited importers versus the rest of the registered businesses, do you think it is a serious issue?

Mr. R. Shead:

We thought it might be. I am not sure it is now, because the GST would be paid quarterly, on a quarterly basis. I am not sure this really is a major cash flow issue now, although, of course, we will wait and see what happens in reality. But I do not believe, for GST registered, for approved traders, I do not believe this would be a major problem.

Deputy P.J.D. Ryan:

Do you see any particular problem for those wanting to register for GST having to fill in a little bit extra and automatically become approved at the same time? Do you think it is a major problem for people?

Mr. R. Shead:

I do not think so, no. I mean, people whose turnover is on the borderline might find it advantageous. As I understand it, you can register voluntarily.

Deputy P.J.D. Ryan:

I was not thinking about that. I was thinking, because you missed the discussion that we had with the Treasury Minister, we suggested that it might be a good idea that all registered for GST traders also automatically, at the same time, became accredited importers, so that there would not be a 2-tier, 2-department registration, one for importation and one for GST registration?

Mr. R. Shead:

As I understand it, that is not my understanding of how the regulations would work. The declaration of import, there is not any need to split it. Therefore, anything that is imported would be declared on a registered trader's quarterly import return.

Deputy P.J.D. Ryan:

Yes, only if you are an accredited importer.

Mr. R. Shead:

Yes. I am not sure of the distinction between an approved trader, or an accredited trader, or a registered trader. As far as I knew, there was one category, let us put it like that. If there is something different, then that is new to me.

Deputy P.J.D. Ryan:

From what we understand, there are a few extra hoops to go through if you want to be an approved

importer.

Mr. R. Shead:

Then that is news to me.

Deputy P.J.D. Ryan:

What would your view be? That all are registered above £300,000?

Mr. R. Shead:

I would have assumed so, that any company that is registered as a GST trader would be approved automatically, because they would have been approved by Income Tax.

Deputy P.J.D. Ryan:

So, do I take it that you would support a situation whereby it was one form, even though it was slightly more complicated form, for when you first registered?

Mr. R. Shead:

I have seen the draft form, which looks fairly straightforward, so I would say anything that keeps it simple and requires less administration for any business, we would definitely approve of, yes. Simplicity is the thing. What we have seen and what we have been told is that this will all be able to be done electronically, it will all be done online, and it will obviously reduce the amount of paper. You just have to keep an audit trail. Well, most people have computer systems that keep an audit trail of everything they buy so, if Customs say they want to have a look at this, well, there it is, sort of thing, you have the paperwork to cover it.

Deputy P.J.D. Ryan:

Thank you for that. I think that is the end of importation. We will move on swiftly and seamlessly to the *de minimis* level of personal imports of non-registered, a low-value consignments, effectively. What is the Chamber's current thinking on the level of *de minimis*, because it seems to have been suggested to us that your thinking is "X" and we want to hear it directly from the horse's mouth.

Mr. R. Shead:

We did make a suggestion a few months ago, when we had a meeting with the consultants, as to what the figure might be. But the situation moved on since then because the real issue is not so much in a way what the *de minimis* figure is. The real issue is what is the amount of tax collected, and what is the cost of actual collection? Now, on this point, we do not know, because we do not have access to the figures. So, in a way, it is not for Chamber to suggest that this is what the figure should be. Any figure that makes our retail competitors more uncompetitive, if that is the right word, with the current trend to

Internet shopping and off-Island shopping is going to be viewed with concern by our retail membership. As Chamber, we do not have the detailed knowledge of staffing costs in the Custom service as to how they would manage that. What it needs is a form of cost benefit [analysis], as to what does it cost to collect? Now, when I came in earlier, I did hear some figures quoted for this sort of thing. But this is really a government issue. The Government has to decide what is the level that they can economically collect the tax.

Deputy P.J.D. Ryan:

Would it be surprising to you if I were to say to you that you are being quoted as the Chamber would support a certain level?

Mr. R. Shead:

No, it would not be, because I did make a point a few months ago of giving a figure and giving an amount of tax, but things have moved on since then.

Deputy P.J.D. Ryan:

What was that figure, and how have they moved on since then?

Mr. R. Shead:

You have the figure in your report there, so you know what the figure is. It is only when we went into further discussion with our membership, with other members on our retail committee, that people were saying: "Hang on a minute; we need to look at this in more detail."

The Connétable of St. Brelade:

Do you have much in the way of freight forwarding representation? I know you have considerable personal experience.

Mr. R. Shead:

Yes, the 2 major shipping companies and the airlines are represented on Chamber's Transport Committee, yes.

The Connétable of St. Brelade:

What is view coming out of the Transport Committee on this?

Mr. R. Shead:

I cannot speak for the Transport Committee because I sit on it as an ex-officio member. In fact, I am due to go to a meeting when I am finished here. Their concern, in a way, as I expressed earlier, is administration; is the simple costs of how is this going to operate at the grassroots level? How are they

going to be able to handle imports and how will it work? I gather that there are discussions going on with Customs, both with the air operators and down at the harbour, on to how this would work.

The Connétable of St. Brelade:

Do you see a high *de minimis* level, which is proposed by the Consumer Council, being of benefit to freight forwarders?

Mr. R. Shead:

From that particular aspect, I can see their concern, yes. But that is definitely, the level that is being talked about, would be far, far higher than our retail members would be prepared to accept.

The Connétable of St. Brelade:

So, as the one in the middle, so to speak, do you feel there would need to be a compromise between retail and transport, for instance?

Mr. R. Shead:

Yes, there definitely has to, yes. I mean, transporters have to get the goods here; retailers have to sell it. If you make the *de minimis* level too high, that is going to affect the business anyway, because that will have a direct effect on retailers.

The Connétable of St. Brelade:

So, in mathematical terms, where would you see that level being?

Mr. R. Shead:

That is the point, that I do not have enough information to make that informed figure as to what the *de minimis* level should be. Because I come back to what I said earlier, although the *de minimis* figure -- the level is not really the important issue. The important issue is the actual amount of tax collected, and the actual cost in collecting that amount of tax. I know that Customs currently have, in effect, a *de minimis* level of £330, because they will not collect duties less than £10. But, of course, that is based on impôt duty, which is at a far higher level than the 3 per cent GST we are talking about. So, we have to be a bit careful on this issue. It is really for government to decide how much it costs, and that is why I talk about cost benefit analysis. They need to decide how much it costs to collect, but I gather some figures were mentioned this morning.

The Connétable of St. Brelade:

Do you see a conflict between the freight forwarders and the post office on this at all?

Mr. R. Shead:

That is no secret. There are now lots of private postal companies, and that does have an effect on the post office, yes, very much so. But the post office themselves are aligned with a major parcels carrier anyway. So, that is an ongoing issue with the liberalisation of postal services throughout Europe and in the UK, and the current strikes in the UK are probably not doing it any good, either.

Deputy P.J.D. Ryan:

If you do not mind, I need to press you, because we need to be clear on the Chamber's position on this *de minimis*. I do have a report here, which I think is pretty much in the public domain now. I was a little bit reticent; I was wanting you to quote from that report, but it is now in the public domain.

Mr. R. Shead:

I have not seen it. I know what I said, Mr. Chairman, but I have not seen it.

Deputy P.J.D. Ryan:

Would you be prepared to tell us what your position was 3 months ago?

Mr. R. Shead:

I do not think it matters, because it has changed now.

Deputy P.J.D. Ryan:

That is what I am trying to establish.

Mr. R. Shead:

This is what I am saying to you, yes. A few months ago, we were working on a different basis as to how things would operate. We have made a lot more progress on this whole issue of GST, how it works, on the price marking issue, how it affects registered companies. So, a lot of what I said has perhaps been completely superseded by events now. So, it is not really something I would like to go back and comment on.

Deputy P.J.D. Ryan:

So, your position has changed?

Mr. R. Shead:

Our position has changed, yes.

Deputy P.J.D. Ryan:

Pretty fundamentally?

Mr. R. Shead:

Yes it is, yes.

Deputy P.J.D. Ryan:

Okay, I think that is important to establish, because certain assumptions have been made by the Treasury Minister and his officers based on the information that you gave them 3 or 4 months ago.

Mr. R. Shead:

Yes, that is right.

Deputy P.J.D. Ryan:

I think we need to quite clear and unequivocal, again, your position has fundamentally changed.

Mr. R. Shead:

Yes, they are aware of that.

Deputy P.J.D. Ryan:

Okay, fine, thanks.

The Connétable of St. Brelade:

In terms of the difference between imports from the UK and from the Continent, do you see any difference in the potential paper flow that will arise as a result of GST between the 2 areas?

Mr. R. Shead:

Not really. I mean, in my own business, I import fresh food from Europe every week, 2 or 3 times a week. No, I do not see that being an issue at all. The paperwork flow will be declared, as far as my company is concerned, on my import return. So, there is not really a major problem, as far as I am concerned, anyway. It might be for some companies who are bringing in goods from the Far East, in maybe they are not registered and therefore they have got to pay impôt duty and then GST on top. But they still have to pay the excise duty anyway. They are just paying the GST on top of that figure. But, again, I can really speak a lot more about registered importers. That is not really a problem.

Deputy P.J.D. Ryan:

You referred earlier on to the white van man, if you like. Has that body of people, that we know are present in the Island, have they got any representation particularly with the Chamber that you are aware of?

Mr. R. Shead:

Not that I am aware of, no. That comes back to what I mentioned earlier, that is the risk management problem with Customs. They know the pattern of trade, so they know who is doing what, because they are down there when the boats come in from various destinations. They are there all the time; they know what is happening.

Deputy P.J.D. Ryan:

This is a subjective question that probably can only have a subjective answer, but I will ask it anyway, for what it is worth. This question of a higher *de minimis* and the thought that it would drive further behavioural change in retailing or purchasing patterns towards the Internet and off-Island retailing, how much do you think that is relevant?

Mr. R. Shead:

I think it is very relevant indeed. Retailers in Jersey have competition, and people say there is no competition. Of course there is. There is competition from off-Island shopping, there is competition from people going over to France or going over to the UK and buying goods, and there is obviously competition off the Internet as well. So that any sort of figure, or any thing that is set that makes it more uncompetitive to buy locally will have an effect on local businesses, which will affect -- obviously, long-term could affect the tax base as well.

Deputy P.J.D. Ryan:

The economic advisor, a comment from you on this one, I would ask you to be as polite as possible on this answer, if you would not mind.

Mr. R. Shead:

Are you talking about the States' economics advisor?

Deputy P.J.D. Ryan:

The States economics advisor says that the collapse of Jersey retailers would be beneficial for the for the Island because resources that would have otherwise been tied up in relatively low value added activity such as retail could be reallocated to higher value activities such as financial services.

Mr. R. Shead:

That is what you would expect an economist to say, but we live in the real world and not everybody wants to be, or is capable of being employed in finance. Retail is the second largest industry in the Island, employing about 12,000 people. The Chamber's total membership is about 560 companies. Probably about 200-odd of those companies are local retailers. Retailers provide the shopping experience, if that is the right word, for people who come over to the Island. We still have, thank God, a number of them.

Deputy P.J.D. Ryan:

So, there are tourism implications?

Mr. R. Shead:

From a tourism point of view, we are not quite yet a clone of a UK High Street. People who come over see local, independent shops. I think the retail industry is really very important. It is sustained a lot by the finance industry, by people's relatively higher wages, and people do shop. Really, in a way, it is quite as simple as that. It makes part of the experience of living in Jersey, it adds to the value of living here, the fact that there is still, much more than in Guernsey, a wider range of types of retailers. Those are the people that we represent, which is why we [Chamber] have gone into detail about retail policy. I mean, we are going slightly off track now about retail policy with economic development and this sort of thing, but the market decides, and anything with regard to GST that makes it more uncompetitive affects retailers. Retailers just will have to be more competitive. The Internet is not new, people have been challenging that - or "challenging" perhaps is the wrong word - people have been living with that for a number of years now. It is just that, if anything, it is another factor that makes it even more difficult.

The Connétable of St. Brelade:

Given that shopping patterns change, and are changing, and no doubt will change, do you see any economic change as a result of GST coming in to the retail industry as we have it at present?

Mr. R. Shead:

Difficult to say at the moment. I think most retailers in Jersey, or virtually all the retailers that we have spoken to, say that we will have to pass on the GST because we are not making sufficient margins to absorb a further 3 per cent cost. This is, in a way, why we have campaigned and won the battle rather than the war about exclusive and inclusive pricing; so that it is clear to people: "This is the tax that you are going to pay the government. There it is on the bottom of the till receipt or the bottom of your invoice. It is not a cost that retailers have added on to make a bit more margin." So, I think that it will be more difficult, but people will just had to work harder at it, which is what retailers have been doing over the past few years anyway, since the widespread use of Internet shopping. Jersey has a very high proportion of homes that are connected to broadband, people are very Internet savvy, and people do shop on the Internet, and local retailers just have to make sure they are a bit more competitive. It is a bit touchy-feely, you know: "Do you want to buy a shirt on the Internet, or do you want to go into de Gruchy's and try it and feel it?" you know? In a way, that is what needs to happen and that is what is happening.

The Connétable of St. Brelade:

Would you agree it is very difficult to quantify the economic changes that might occur?

Mr. R. Shead:

Very difficult indeed, though we know from last year's household expenditure survey that more is being spent. The amount of disposable income being spent on Internet shopping goes up all the time, and that is an ongoing trend. The retailers will have to be more even more competitive, making the shops more user-friendly and everything like this.

The Connétable of St. Brelade:

So, would this influence the Chamber's thoughts on the way they might suggest a *de minimis* level, because clearly, this has an effect.

Mr. R. Shead:

This will definitely have an effect, yes. Some of our members want a *de minimis* level of £18, which would generate 54p tax which, from some of the figures I have heard earlier, would not be a viable. But this is a very difficult issue for people and this is an issue that concerns retailers very much so, the amount of off-Island shopping. But it is a fact of life. It is not just the Internet; it has been going on, as I said earlier, for a long time.

Deputy P.J.D. Ryan:

I asked the Treasury Minister this question; you may have heard it. We have calculated that, based on the data in a crown agent's report that we have seen, a *de minimis* level of £500 would mean that 96 per cent of parcels coming into Jersey would escape GST.

Mr. R. Shead:

Yes, I heard that

Deputy P.J.D. Ryan:

First of all, were you aware of that, and do you feel that that is reasonable?

Mr. R. Shead:

I would not like to comment whether it is reasonable or not, but it is an interesting indicator of how much comes in through the post office alone, let alone the other parcel carriers. This is the type of information that I have referred to earlier that is useful to have, because then you can decide how much tax leakage there could be, and how much it costs to administer.

Deputy P.J.D. Ryan:

We have heard that a £400 *de minimis* would have a leakage of £250,000 a year.

Mr. R. Shead:

But then I guess that has to be viewed, in a way, out of 45 million. Then you have to view that in to how much it costs to collect that additional £250,000. Then I come back to what I said earlier, the balance has to be put right, because we do not know, I do not know, what their staffing costs are and how much it would cost to collect that amount of money.

Deputy P.J.D. Ryan:

We have some calculations.

Mr. R. Shead:

Yes, I gather some figures are coming out, which would be useful for us to study.

The Connétable of St. Brelade:

You referred to staffing costs. In terms of staffing costs at Customs, and given that they will have an additional workload, would you see there being potential for Customs employing lower-qualified staff to administer this sort of imports?

Mr. R. Shead:

A difficult issue, really difficult, probably nearly impossible for me to comment on that, really. Customs have to set the level of their staffing requirements and what people's abilities are, because I guess the people will not only deal with just GST, there would be other issues as well. So, I would not really like to comment on that. I do not know enough about Customs staffing procedures and how they operate, and how they recruit staff.

Deputy P.J.D. Ryan:

That about wraps it up, Ray, but there is one thing that I would like to say to you, and that is this is your opportunity, through us, to put firmly into the public domain and discuss with us any other comments and thoughts that you might around this *de minimis* level, or anything that we have missed. If you have other things that we have not asked you about, please feel free to ...

Mr. R. Shead:

I appreciate that. Obviously, a number of points have strayed from what I planned that I would be talking about. There are some other issues that we are in the process, I think I mentioned earlier, of discussing with ministers, and Chamber will be putting out a policy paper when it has been approved by council, and that will be over the next week or so. We are happy to let you have a copy of that, where we have some suggestions on the whole fiscal strategy, which obviously includes GST as well.

Deputy P.J.D. Ryan:

Have we missed any of the finer, subtle points on the *de minimis* in any way?

Mr. R. Shead:

No, I do not think so, no.

Deputy P.J.D. Ryan:

You think we have covered everything?

Mr. R. Shead:

The point that I have been trying to make all along is that the amount of tax has to be quantified by the resources needed to collect it, and it is important to concentrate on the amount of tax rather than the *de minimis* level. The level is there, obviously, what the figure should be, but it is really the cost of collecting any particular amount.

Deputy P.J.D. Ryan:

Subjectively, though, we feel that there is another angle to this, which is the question of the morale of your members and the fact that they are being asked to act as unpaid tax collectors, and that kind of thing. Is that significant?

Mr. R. Shead:

Yes, there is, especially among the smaller companies, yes, most definitely. Some of our larger clients have told us that they are probably going to have to employ extra staff to cope with what is required with the paperwork. I mean, in effect, business is clearly acting for government as an unpaid tax collector. That is no doubt, and there will be costs involved in that.

Deputy P.J.D. Ryan:

I was thinking in relation to the *de minimis* level.

Mr. R. Shead:

That is probably more psychological, the effect rather than the actual additional staff that would be required by retailers to cope with that, is the fact that it would signal to the public that anything above a particular level or below it, could maybe be bought off-Island. That is just another factor that makes Jersey more expensive than it already is, let us put it like that.

The Connétable of St. Brelade:

Are there any of your members, perhaps those who are on the borderline of £300,000 turnover, have any of them said: "This is enough for me; I am going to give up and rent my business out"?

Mr. R. Shead:

That is possibly a reason that people are reviewing -- it is another factor that people take into account, yes. I mean, one of the biggest factors for people moving out of the retail industry is in fact the rents, more than anything else. The fact is that landlords want 9-year leases, and people: "Hang on a minute, maybe we will sign 3-year lease," you know? People of, say, my age, coming up not far from retirement, a few years to go but not that long to go, will say: "Well, hang on, we are going to have GST. I mean, I could live with it for 3 years but I am not sure if I can live with it for 9 years." That is just another sort of adverse factor that makes people decide: "Well, do we want to continue?" Obviously, that is just another factor that people will tick off a list as to whether it is worth continuing in business.

Connétable J.L.S. Gallichan of Trinity:

But with, like, a GST, hopefully, it could influence the landlord to drop his rent, because at the end of the day, if you own a shop, you have to rent it out.

Mr. R. Shead:

That is right, yes.

The Connétable of Trinity:

It could go the other way, instead of hiking the rent up, just to keep it -- at the end of the day, it is worth having. Whatever you get is better than an empty shop.

Mr. R. Shead:

It is, but it is surprising that landlords want the rent. I hear very few stories of rents coming down on the High Street. When they are renegotiated landlords are still looking for 9 year rather than 3 year leases.

Deputy P.J.D. Ryan:

It is a function of economic growth, though, is it not?

Mr. R. Shead:

Yes. People will always move in and out of the retail industry, that is a fact of the economic life.

The Connétable of Trinity:

It takes 2 people to make a deal, so if you do not like the rent, you walk away and somebody else will come along and take the lease over.

Mr. R. Shead:

Yes, and that is what is happening. I think there are fewer empty shops around the High Street at the moment than, say, there were a year ago. Because with the previous Chief Executive, we walked up and down and counted them. When I walked through Town on Saturday, I could see there were fewer empty shops. In fact, there are more shops being redesigned. There are a few ones that have closed, but you have got big hoardings there, so obviously, there is investment in town.

Deputy P.J.D. Ryan:

I have one general question here, if you would not mind moving off GST, while we have you, it is a question of strike while the iron is hot. We had someone called David Kerns come over to see us, who was the ex-NatWest chief economist. He said that the real threat of a medium-term fiscal black hole, moving on to Zero-Ten and black holes for a second, it is not being taken very seriously in a belief or hope that faster economic growth would solve this problem. He said” “Public spending has surged; savings promises made when Zero-Ten was agreed upon have not been kept due to social priorities”, and he describes this as a dangerous strategy. In the context of GST, and those that feel that GST could be deferred, possibly even delayed indefinitely, is the Chamber’s view that that is also the case, and do you have any concerns about Jersey’s fiscal strategy in the medium term?

Mr. R. Shead:

Obviously, we commissioned David Kerns to come and do this report. His report said that basically the Zero-Ten fiscal policy had to happen and therefore, that GST was a way of filling in the black hole. But he said that needs to be accompanied by real savings in government expenditure. In the current year, those savings are not there, and that is why it needs a medium-term strategy over the next 3 years, to work out that you have to save some money as well. You have to stop spending at the rate that has been going on, because it is unsustainable at the moment. Part of what David Kearns has said will be taken into our policy paper and our position paper that we are in the process of drafting at the moment. So, yes, we take very seriously his comments. I mean, he knew the Island. He knew the Island when he was chief economist at NatWest. He is now chief adviser for the British Chambers of Commerce, so he understands how business operates and his views were well received by Ministers. We know that, and we are using his report and his research as part of our plans and part of our feedback to government on fiscal policy.

Deputy P.J.D. Ryan:

Right, we will hear more and we hear your submissions.

Mr. R. Shead:

We will let you know, I would hope in the next week, anyway, at the latest.

Deputy P.J.D. Ryan:

Thank you. Right, gentlemen, thank you very much and good afternoon once again. Thank you for spending the time with us.

Mr. R. Shead:

I hope it throws some light on some things, anyway.

Deputy P.J.D. Ryan:

Yes, it has indeed. Thank you.