STATES OF JERSEY

PROPOSED GOVERNMENT PLAN 2023-2026 (P.97/2022): THIRTEENTH AMENDMENT (P.97/2022 AMD.(13)) – AMENDMENT

ENHANCED CAPITAL ALLOWANCES

Lodged au Greffe on 5th December 2022
by the Council of Ministers

STATES GREFFE

PROPOSED GOVERNMENT PLAN 2023-2026 (P.97/2022): THIRTEENTH AMENDMENT (P.97/2022 AMD.(13)) – AMENDMENT

---

1 PAGE 2 –

Delete the paragraph that begins "From 1st January 2024" and insert the words "As part of the 2024 Budget, which will be delivered in 2023 and focus on innovation and enterprise, Ministers will consider a range of measures to encourage and stimulate investment, including the case for increasing the rate for capital allowances available to businesses that make qualifying capital purchases."

COUNCIL OF MINISTERS

Note: After this amendment, the thirteenth amendment2 would read as follows –

1 PAGE 2, PARAGRAPH (i) –

After the words "Appendix 3 to the Report" insert the words –

> ", except that, on page 33 of Appendix 3, after the words "relatively short period of time." a new section should be inserted as follows –
>
> **"Enhanced capital allowances**
> Currently businesses are able, under part 12A of the Income tax (Jersey) Law 1961, to claim capital allowances on qualifying capital expenditure to offset against allowable profits at a rate set at 25% per annum on a reducing balance basis.
>
> As part of the 2024 Budget, which will be delivered in 2023 and focus on innovation and enterprise, Ministers will consider a range of measures to encourage and stimulate investment, including the case for increasing the rate for capital allowances available to businesses that make qualifying capital purchases."

Note: After this amendment, the proposition would read as follows –

THE STATES are asked to decide whether they are of opinion –

to receive the Government Plan 2023–2026 specified in Article 9(1) of the Public Finances (Jersey) Law 2019 ("the Law") and specifically –

(a) to approve the estimate of total States income to be paid into the Consolidated Fund in 2023 as set out in Appendix 2 – Summary Table 1 to the Report, which is inclusive of the proposed taxation and impôts duties changes outlined in the Government Plan, in line with Article 9(2)(a) of the Law;

(b) to approve the proposed Changes to Approval for financing/borrowing for 2023, as shown in Appendix 2 – Summary Table 2 to the Report, which may be obtained by the Minister for Treasury and Resources, as and when required, in line with Article 9(2)(c) of the Law, of up to those revised approvals;

(c) to approve the transfers from one States fund to another for 2023 of up to and including the amounts set in Appendix 2 – Summary Table 3 in line with Article 9(2)(b) of the Law;

(d) to approve each major project that is to be started or continued in 2023 and the total cost of each such project and any amendments to the proposed total cost of a major project under a previously approved Government Plan, in line with Article 9(2)(d), (e) and (f) of the Law and as set out in Appendix 2 - Summary Table 4 to the Report;

(e) to approve the proposed amount to be appropriated from the Consolidated Fund for 2023, for each Head of Expenditure, being gross expenditure less estimated income (if any), in line with Articles 9(2)(g), 10(1) and 10(2) of the Law, and set out in Appendix 2 – Summary Tables 5(i) and (ii) of the Report;

(f) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2023 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 6 to the Report;

(g) to approve the proposed amount to be appropriated from each States trading operation's trading fund for 2023 for each head of expenditure in line with Article 9(2)(i) of the Law and set out in Appendix 2 – Summary Table 7 to the Report;

(h) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2023 as set out in Appendix 2 – Summary Table 8 to the Report; and

(i) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2023-2026, as set out at Appendix 3 to the Report, except that, on page 33 of Appendix 3, after the words "relatively short period of time." a new section should be inserted as follows –

"Enhanced capital allowances

Currently businesses are able, under part 12A of the Income tax (Jersey) Law 1961, to claim capital allowances on qualifying capital expenditure to offset against allowable profits at a rate set at 25% per annum on a reducing balance basis.

As part of the 2024 Budget, which will be delivered in 2023 and focus on innovation and enterprise, Ministers will consider a range of measures to encourage and stimulate investment, including the case for increasing the rate for capital allowances available to businesses that make qualifying capital purchases."

REPORT

Summary

Ministers understand and support Deputy Luce's desire to encourage and stimulate certain types of investment by proposing enhanced capital allowances and are minded to support the amendment with some changes, as set out in this report.

Background

As stated in the amendment, businesses can claim an income tax deduction for capital allowances in respect of qualifying capital expenditure. This is different from deductions for revenue expenditure, which are day-to-day expenses and can be claimed in the year in which the payment is made.

Capital allowances are available in respect of assets that have a lasting benefit, which are purchased for business use and are often known as 'plant and machinery'. Rather than provide relief for the full cost of the asset, capital allowances have the effect of spreading tax relief for the cost over a number of years. In Jersey, the annual writing down allowance is 25%.[1] This treatment in the income tax system recognises that the asset has a lasting but reducing value.

Scope of the amendment

Deputy Luce has proposed that all qualifying purchase made by small and medium sized businesses should qualify for 100% relief. This would have the effect of recognising the purchase in full in the year the purchase is made. It is suggested that such a relief would promote the purchase of more efficient plant and machinery.

The amendment proposed by the Council of Ministers would allow time to consider whether any restrictions should be placed on the purchase of plant and machinery, for example to ensure the policy is in harmony with the wider Common Strategic Policy aims, which include the aim to move purposefully on a path to net zero emissions.

It would also allow time to consider whether any restrictions should be included to control the cost to the Exchequer of enhanced relief of this sort delivered through the tax system.

Small and medium enterprises

The amendment proposes to target the relief at small and medium sized enterprises (SMEs). No definition is provided on what constitutes a SME. Unlike some jurisdictions, Jersey does not currently have a legal definition of a SME. The EU definition is based on staff headcount and either turnover or balance sheet total.

Company category	**Staff headcount**	**Turnover**	or **Balance sheet total**
Medium-sized	< 250	≤ € 50 m	≤ € 43 m
Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

[1] Buildings do not qualify for capital allowances, but glasshouses do qualify with a lower 10% allowance.

92% of Jersey’s businesses employ 20 or fewer people and so most businesses in the Island would qualify for the new enhanced relief that Deputy Luce proposes, if the EU definition is adopted.

A further advantage of the Council of Ministers’ amendment is to provide time in 2023, as part of the work on the 2024 Budget, to decide whether there should be a different definition of small and medium sized enterprises in Jersey for the purpose of eligibility for enhanced capital allowances.

The 0/10 regime

Regardless of whether this amendment to Deputy Luce’s amendment is adopted, the Council of Ministers are mindful that Jersey’s 0/10 corporate income tax regime would limit the impact of changes to the capital allowance rules as they relate to companies. This is because only a subset of Jersey businesses (those paying at rates above 0%) would receive a cash benefit from capital allowances through lower tax payments.

Companies subject to corporate income tax (those that are not subject to the 0% rate) are predominately financial services companies, companies that derive income from Jersey land, large corporate retailers and, more recently, cannabis industry companies. Businesses that are not incorporated (e.g. sole traders and partnerships) would, though, be eligible for any enhanced relief.

A sector analysis of the corporates that pay corporate income tax is provided in the Appendix.

Financial and manpower implications

Financial and manpower implications cannot be quantified with the data available.

Appendix – Corporate income tax receipts for 2021 dissected by sector (sectors recorded with nil net tax (£0.m) in the table below have total tax liabilities of +/- £50,000)

Sector	**Amount £'m**
A - Agriculture, Forestry and Fishing	0.0
B - Mining and Quarrying	0.4
C - Manufacturing	0.0
D - Electricity, Gas, Steam and Air Conditioning Supply	2.9
E - Water Supply, Sewerage, Waste Management and Remediation Activities	0.5
F - Construction	2.2
G - Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	7.0
H - Transportation and Storage	1.0
I - Accommodation and Food Service Activities	0.6
J - Information and Communication	3.3
K - Financial and Insurance Activities	40.5
L - Real Estate Activities	15.2
M - Professional, Scientific and Technical Activities	10.8
N - Administrative and Support Service Activities	0.1
P - Education	0.0
Q - Human Health and Social Work Activities	(0.1)
R - Arts, Entertainment and Recreation	0.0
S - Other Service Activities	0.3
T - Activities of Extraterritorial Organisations and Bodies	0.1
U - Activities of Households as Employers; Undifferentiated Goods- and Services-Producing Activities of Households for Own Use	0.2
Sector unrecorded	0.3
Grand Total	**85.5**