



JERSEY FINANCE

VOICE OF THE INTERNATIONAL FINANCE CENTRE

30 October 2013

Long Term Care Benefit Scheme Scrutiny Panel
Scrutiny Office
Morier House
St Helier
JE1 1DD

Dear Panel

Fiscal Strategy Group comments on Long-Term Care Benefit Scheme

We write with reference to the proposal to introduce a new charge for “long-term care”. This response reflects the views of the Fiscal Strategy Group (“FSG” or “we” as appropriate), established by Jersey Finance Limited for the purposes of responding to the States of Jersey’s fiscal strategy proposals. FSG’s terms of reference, which include details of its current membership, are enclosed in the appendices.

Consultation process

It is noted that the proposal first arose in 2008 and was subsequently included within the Strategic Plan 2009 – 2014. FSG feel that, after the green paper consultation of February 2010 and white paper of November 2010, the proposal appeared to fade away for an extended period of time, during which updates were minimal, only to re-emerge earlier this year at a pace that felt rushed.¹

Given the significance of the proposal for the Island, FSG believe that the consultation process and notice periods could have been dealt with and communicated more effectively.

Transparency

Regarding the proposal itself, the Draft Budget Statement 2014 recently declared that there ‘are no changes...to the cornerstones of Jersey’s tax regime, being...a standard rate of income tax of 20%’. Whilst we accept that the Long-Term Care charge is not a proposal of this Budget, it is difficult to describe the charge as anything other than a tax and therefore one has to question whether the 20% standard rate will continue to exist.

FSG note the political reluctance to describe the charge as a tax and also that the 20% rate is a significant selling point for the Island, but we feel that communication in respect of the matter has lacked transparency. Alignment to ITIS

As discussed above, one of the determinative selling points for internationally mobile individuals is the rate of personal income tax. Given the underlying purpose of the charge and also the need to retain

¹ The group asked for details on what information was released and when as they felt the proposal was brushed under the carpet for a while before now being rushed through. It was felt that the consultation process was rushed and not done through the normal channels.

Docs issued:

[Green paper](#) – closed March 2010

[White paper](#) – closed January 2011

Update – [June 2013](#)

Plans published – [Aug 2013](#)

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Jersey's 20% headline tax rate, FSG believe that the charge would be better served by being aligned to Social Security, rather than ITIS.

We note that this realignment may require some thought to deal with caps that exist for social security contributions but not ITIS, but believe this would provide greater clarity than exists under the current position of having 'charge' that is described as neither a tax or a social security contribution.

Open ended commitment

A major concern remains that the charge represents an open-ended commitment funded by future taxpayers. Unlike many benefits there are no caps and the costs of the scheme could spiral. Current estimates predict a charge of 3% by 2044 though there remains considerable uncertainty in these estimates and the actual rate could differ significantly.

Although eligibility rests on a 10 year residency criteria being met, we do not believe that such a scheme can be introduced without the existence of a defined population policy.

Competitiveness

A sizable proportion of the individuals working – and businesses operating – in Jersey are internationally mobile. Whilst it is unlikely that the charge would of itself convince any persons to leave the Island, the introduction of a further expense during a period of continued economic difficulty does not send a positive message.

Jersey already has a high cost of living and care must be taken to ensure that the Island remains in a competitive position to be able to attract high calibre employees. The effect of a tax rate exceeding 20% on the attractiveness of Jersey should not be underestimated.

With other increases such as the change in Social Security, FSG feel that the Island's population is being taxed to the limit. Should the Island enter even more difficult economic times, there is little room for manoeuvre to increase taxes further without jeopardising Jersey's competitive position.

Conclusion

The Island continues to face a tough economic environment and FSG query whether now is the correct time to be introducing a new charge which will be a further burden on the economy. The commencement of contributions will see funds being taken out of the economy, potentially leading to a spiral of lower tax revenues, higher unemployment and an increased number of persons of working age leaving the Island to seek employment elsewhere.

FSG accept that consideration is needed as to how best fund long-term but question the timing of the scheme's introduction and the method of collection.

Yours faithfully



Geoff Cook

C.C.:
Fiscal Strategy Group Members
Jersey Finance Board



Appendix 1 – Fiscal Strategy Group Terms of Reference

Status

The Fiscal Strategy Group (FSG) is a Sub-Committee of Jersey Finance Limited and has been established to represent and promote the interests of the Finance Industry on fiscal strategy matters. Whilst the FSG is made up of representatives from across the Industry, it is not an elected body and, therefore, in formulating its views and recommendations, it will need to consult extensively with the Member firms of Jersey Finance and the Trade Associations.

Membership and quorum

The Chairman and members of the FSG will be appointed at the discretion of the Jersey Finance Board. Participation in the Group is voluntary and on an unremunerated basis. A minimum of any five members is required at a meeting for the Group to be quorate. The use of alternates is permitted.

In determining the composition of the Group, the Jersey Finance Board will be mindful of the need to reflect a broad cross-section of the Industry, and will seek to ensure that all key Industry sectors are at all times represented. However, it is also recognised that the Group will need to include tax professionals with sufficient expertise to deal with complex fiscal matters.

In identifying appropriate members, the Board may take into consideration the views of the Trade Association Members of Jersey Finance. However, it should be noted that all members of the working party are acting in a personal capacity and do not represent the views of their respective firms or of any body of which they may be a member.

Whilst the FSG will at all times seek to achieve a consensus position on matters under consideration, it is recognised that this may not always be possible and that individual members of the Group may have dissenting views.

Purpose

The primary purpose of the FSG is to consider and report upon the technical and commercial implications for Jersey's Finance Industry arising out of the States' fiscal policies.

In determining its position on key fiscal strategy issues, the FSG will consult widely with Jersey Finance Member firms and the Trade Associations. It will also work closely with the States and other relevant stakeholders as required.

Confidentiality

Given the focus of the FSG's remit, it may be asked to consider information of a confidential nature. All members of the Group will be expected to apply the highest professional standards and judgement in the handling of such information.

Key Objectives

- To study all key fiscal policy issues and assess / report on their potential impact on Jersey's Financial Services Industry.
- To consider any significant tax developments in selected key competitor jurisdictions (whether identified by members of the Group or others) and inform the Finance Industry and/or the States of any important changes – especially where tax changes in a competitor jurisdiction may affect Jersey's market position¹.
- To support the Market Access Group (MAG) in formulating its proposals/recommendations in relation to the States' international tax negotiations (e.g. Tax Information Exchange Agreements).



Operating parameters

The FSG will operate on the following basis:-

- The FSG is a technical group with no decision-making capability. However, it may be used as a mechanism for consultation and technical discussion with other parties, including the States of Jersey, and it is intended that the FSG should be recognised by all interested parties as the primary Industry forum for dealing with fiscal strategy issues.
- The purpose of the FSG, as a technical group, is to study and report on fiscal matters affecting the Finance Industry in Jersey, with a view to preserving and enhancing the long-term competitiveness of the Industry in the provision of international financial services.
- The FSG is mindful that its work and any recommendations it puts forward should take place in the context of what it understands to be in the best economic interests of the Island.

However, it is not within the remit of the FSG to:-

- Support or advise the States (or its appointed representatives) on matters of fiscal policy development. This remains entirely the responsibility of the States of Jersey.
- Determine whether the States' fiscal policies (or any findings of the FSG if adopted by the States) would satisfy Jersey's international commitments on taxation.
- Model the economic impact of its findings and/or recommendations. This will need to be subject to a supplementary process led by the States.
- Engage in any PR or publicity initiative designed to gain acceptance of the States' fiscal policies.

Meetings

It is envisaged that the FSG will meet at least bi-monthly and meetings will be chaired by the appointed Chairman.

Formal minutes will not be prepared unless agreed on a meeting-by-meeting basis. However, the Secretary will note and control any specific action points arising from each meeting.

Duration

The FSG will be established in January 2006 and will continue in existence until such time as it is disbanded by the Board of Jersey Finance.

Reporting Line and deliverables

The FSG will report to the Board of Jersey Finance through its Secretary. From time to time, the FSG Chairman, or other representatives, may be asked to attend Jersey Finance Board meetings for more comprehensive feedback and discussion.

Jersey Finance Limited will provide its Members with periodic updates on the activities of the FSG through its regular communications channels. However, given that the work undertaken by the FSG may be commercially sensitive, such updates may be general in nature as required.

From time to time the FSG may produce formal deliverables – for example, responses to public consultation documents or other reports. It is envisaged that such documents, once agreed by the Group and the Board of Jersey Finance as a formal deliverable, will be made available to all Jersey Finance Members, as well as to other relevant bodies including the consultation sponsor and (where applicable) relevant Scrutiny Panel.



Appendix 2 – Composition of Fiscal Strategy Group as at October 2013

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