# STATES OF JERSEY

# EXPENDITURE PROPOSALS FOR 2012 AND 2013 AND DRAFT BUDGET STATEMENT 2011 (P.157/2010): COMMENTS

**Presented to the States on 6th December 2010**
**by the Corporate Services Scrutiny Panel**

**STATES GREFFE**

## COMMENTS

### Fiscal Strategy Review

Due to time constraints, the Panel has not been able to complete a report on the Fiscal Strategy Review (FSR) to its satisfaction. Furthermore, the members of the Panel are of the opinion that a report on this subject would be more useful if it were able to take into account the findings of the Business Tax Review, which has not yet reached its conclusion. Therefore, we will confine ourselves, at this stage, to making the following comments based on our review of the FSR.

- The aim of the FSR is to achieve balanced budgets by 2013, incorporating the current forecast of a budget deficit. However, despite the fact that the Chief Minister has acknowledged that a return to balanced budgets is not the end of the road and that there are long-term issues to be dealt with, there is still uncertainty surrounding the composition of the deficit, in terms of whether it is structural or cyclical.

- Politically and competitively, 20% is deemed to be the sacrosanct rate for Income Tax and is viewed as the foundation for stability in the Island's economy. Yet it is worth noting that Jersey has a more diversified income from a range of taxes, and that it would not be helpful to the stability of the Island's economy if we were subject to GST 'rate creep'.

- No analysis has been completed as to how an increase of taxation will impact on the ability to achieve agreed States policies and objectives in a holistic manner, particularly in terms of social policy.

- The previous Economic Growth Plan covered the period up to 2009. There has been no successor to this plan. The economic situation has changed dramatically and there is now a clear need for a revised Economic Growth Plan.

- The supporting research for the FSR found that there is significant scope for tax reform in Jersey, which would support economic efficiency and competitiveness. In particular, the research postulated a need for the tax mix to achieve a better balance between indirect and direct taxation. Having identified the scope for tax reform, there should now be further work to extend this research.

- Historical experience has shown that raising taxes has been easier to achieve than cuts in expenditure. In Jersey, the public has signalled that spending should be controlled before taxes are raised. Efforts are now being made to ensure the implementation and monitoring of savings, however, the Treasury should now initiate a more wide-ranging review of taxation, encompassing all forms of tax to produce a long-term goal for the Island to aspire to.

As soon as the Business Tax Review has been completed and its findings have been made public, the issues we have raised in these comments should be revisited. It is important that the subject of taxation is looked at holistically, incorporating both business and personal taxes, in order that the burden can be spread fairly and proportionately across the Island's economy.